



Class DS 793

Book S4J3

1922

CONVERSATIONS

BETWEEN THE

CHINESE AND JAPANESE REPRESENT- ATIVES IN REGARD TO THE SHANTUNG QUESTION

TREATY FOR THE SETTLEMENT OF OUT-
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SHANTUNG.

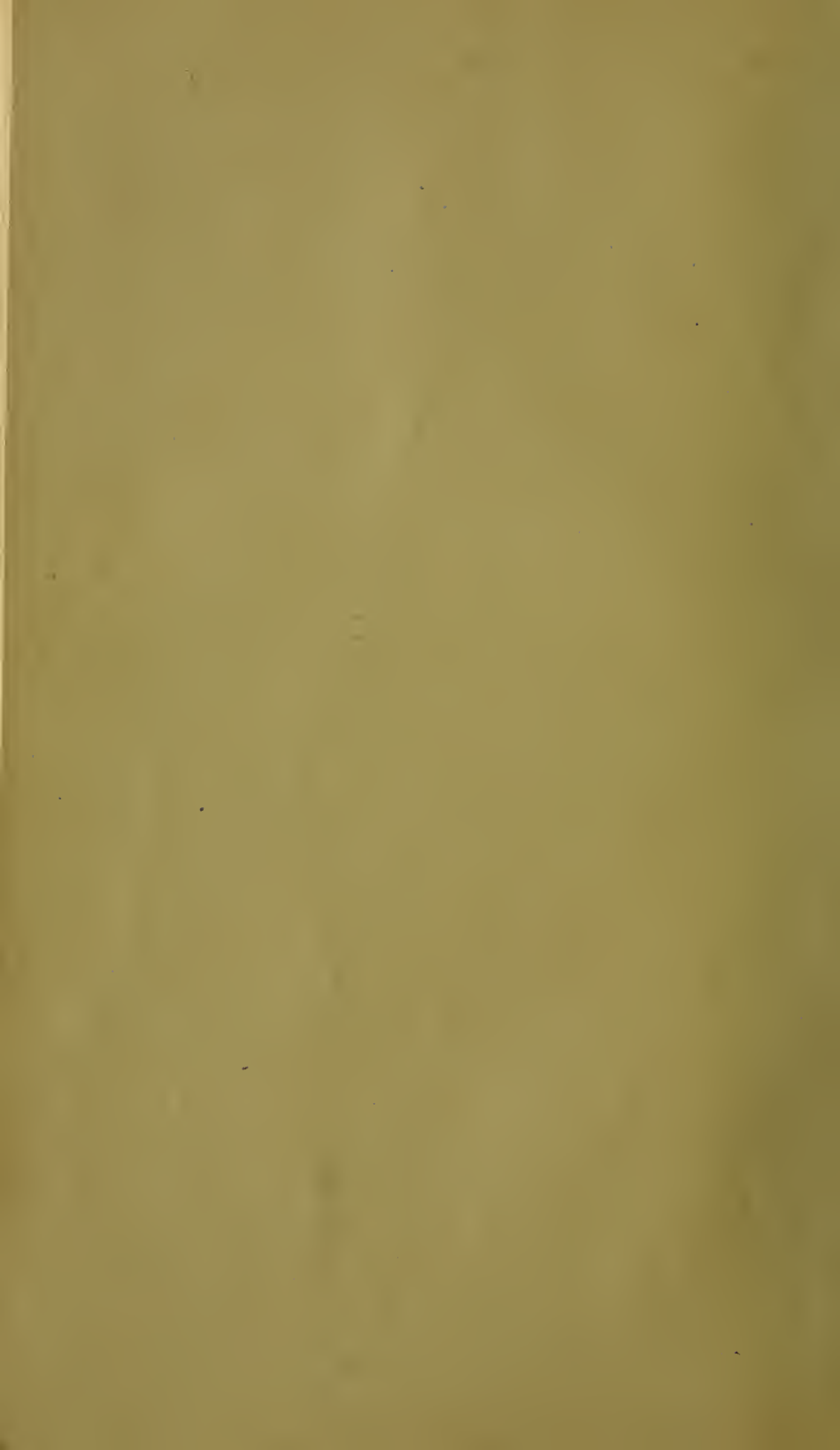
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CONCERNING THE CONCLUSION OF
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MINUTES PREPARED BY
THE JAPANESE DELEGATION



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CONVERSATIONS

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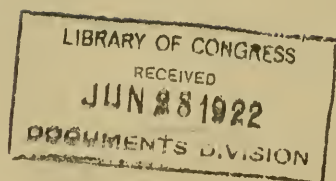
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MINUTES OF PROCEEDINGS.

FIRST MEETING.

The first meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3 o'clock in the afternoon of Thursday, December 1, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Philip K. C. Tyau, Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuen Chao, Mr. Yun Kuan Kuo.

Japan.—Baron T. Kato, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Hon. Charles E. Hughes (part of the meeting), Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Arthur James Balfour, O. M., M. P. (part of the meeting), the Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

OPENING REMARKS.

Mr. Hughes said that he confidently hoped that a fair and mutually satisfactory settlement might result from the friendly conversations now to be undertaken by the representatives of Japan and China. He felt gratified that the suggestion he had made in conjunction with Mr. Balfour had been accepted by both Japan and China. He was convinced that questions of this sort could be speedily solved in no other way than by an interchange of views of this description. He entertained most earnest and confident hope that the free conversations would be productive of good results.

Mr. Balfour said that the sentiments expressed by Mr. Hughes entirely coincided with his own. He had full confidence that the representatives of the two powers would come to an agreement on the Shantung question, which was so important not only to the countries immediately concerned but to the whole world. He joined Mr. Hughes in saying that in the course of the conversations, if any circumstances should come to pass which called for friendly intervention on his part, it would be his great pleasure to offer his services. He was in that connection entirely at the disposal of Mr. Hughes and the representatives of Japan and China. He understood that Mr. Hughes's idea was that the conversations should be conducted without their presence.

Baron Kato, speaking in Japanese, said:

"We are sincerely gratified by the opportunity which has been afforded us to meet with the representatives of China in an attempt to arrive at a satisfactory adjustment of the Shantung question. We can not let this occasion pass without expressing our deep appreciation of the good offices of Secretary Hughes and Mr. Balfour, which have made the present meeting possible.

"It is needless for us to assure you that Japan is eagerly looking forward to an early settlement of this long-pending controversy. We may add that it is the desire of the Japanese people to eliminate all cause for misunderstanding between China and Japan, in order that these two neighboring nations in the Far East may live in future in perfect harmony and accord. And we have no doubt that this sentiment is fully shared by our Chinese friends.

"We are not unmindful of the difficulties with which the Chinese Government is being confronted in entering into direct negotiations on the subject. We are, however, confident that, if approached from a broader perspective, the question should be susceptible of a speedy solution. The true and vital interests of the two nations are in no way conflicting.

"It is unfortunate that the real issues involved have been very largely misunderstood in the popular mind. The term 'Shantung question,' is itself a misnomer. The question is not one which affects the whole Province of Shantung. The important points now awaiting adjustment relate only to the manner of restoring to China an area of territory, less than one-half of 1 per cent of the Shantung Province, and also to the disposition of a railway 290 miles long, and its appurtenant mines, formerly under exclusive possession and management of the Germans. There is absolutely no question of full territorial sovereignty being exercised by China throughout the length and breadth of the Province.

"Careful examination of the correspondence recently exchanged between Japan and China will show that the divergencies of opinion between the two Governments are more apparent than real. We are hopeful that this meeting will be able to determine in common accord the essential terms of settlement, leaving the matters of detail or of local nature for arrangement by the commissioners of the two Governments to be specially appointed for that purpose."

Dr. Sze said that he desired to repeat on behalf of the Chinese delegation the deep appreciation of the good offices exerted by Mr. Hughes and Mr. Balfour, to which he had already given expression officially the day before in the full committee. The Chinese delegation came to this country with the hope of obtaining a speedy solution of all outstanding questions between China and other powers. Among the rest, the Shantung question stood out as one of most vital importance to China. The Chinese Government as well as the entire Chinese people wished for an early and just settlement of that question. It was highly desirable that through the kind assistance of the two gentlemen and the cooperation of the Japanese colleagues a satisfactory agreement should be reached.

Mr. Hughes was gratified to receive assurances from both delegations that the conversations would be conducted in the most friendly manner. He was in full accord with Mr. Balfour in offering services

whenever needed. He added that the physical facilities of the Pan American building were also at the disposal of the negotiators.

(Mr. Hughes and Mr. Balfour left the meeting at this point.)

PROCEDURE.

Baron Kato, speaking in Japanese, expressed his desire to have the conversations conducted in the most open and friendly manner, so that, without much formality, they could express freely their frank opinions. He then desired that a decision should be made as to the procedure of the meetings. However, being unable to speak in English, he would intrust the task of carrying on the conversations to Mr. Hanihara.

Mr. Hanihara repeated that the conversations should be carried on as informally as possible and desired that arrangements should now be made as to a few points of procedure. He suggested—

(1) That no chairman or president be elected for the meetings in view of their very informal and friendly nature.

(2) That it was deemed desirable that as much publicity as might be agreed upon should be given the deliberations of the meetings.

(3) That minutes be kept by the secretaries of the proceedings of each session and be approved by the delegates at the next meeting.

(4) That the date of the next meeting be decided upon each time.

MINUTES.

Dr. Sze declared that the Chinese delegation welcomed the opportunity for free and frank talk. As to the matter of the communiqué, he thought that as much publicity as possible should be given in the press, so that no unnecessary misunderstanding might arise. As to the keeping of the minutes, he wondered whether it would not be best to trespass further upon the good offices of the gentlemen representing the United States and Great Britain.

Mr. Hanihara said that that suggestion struck him as a very good one. If those gentlemen would be good enough to undertake that task, he suggested that the respective delegations each send a secretary to assist in the work. He asked what was the pleasure of the representatives of the United States and the British Empire in the matter.

Mr. MacMurray said that he and his colleagues were keeping a record of the proceedings but they were really for their own use. He suggested that it would perhaps be more appropriate that the minutes should be officially kept by the secretaries of the respective delegations.

Mr. Hanihara said that in that case perhaps it would be best that each delegation appoint a secretary to prepare the minutes and have the representatives of the United States and the British Empire help them in completing them.

The proposals of Mr. Hanihara were agreed to.

SUBSTITUTION OF A PLENIPOTENTIARY.

Baron Kato then stated that, on account of the work of other meetings, and, further, on account of the illness of Baron Shidehara, the

Japanese delegation might find it difficult to send all their plenipotentiaries to this meeting. He would do his best to be present himself as often as possible, but it might so happen that a substitute would be sent in the place of a plenipotentiary. In a word, he suggested the adoption of the panel system. He supposed that such might be the case also with the Chinese delegation. In point of fact, Mr. Debuchi was present to-day in place of a plenipotentiary.

Dr. Sze said that that was agreeable.

Dr. Koo said that, without placing undue emphasis on the question of formality, he wanted to know clearly what was the authority of a substitute when he attended the meeting, whether he would possess the same authority as any plenipotentiary.

Baron Kato, speaking in Japanese, answered that in case a substitute took the place of a plenipotentiary he would have the powers to state the views of the Japanese delegation, but the responsibilities for the statements would be assumed entirely by those who were plenipotentiaries.

DATE AND FREQUENCY OF MEETING.

Dr. Sze suggested that, it being desirable to have meetings as often as possible, they should meet every afternoon, because the mornings would be occupied with the meetings of the full committee.

Mr. Hanihara suggested that, inasmuch as many other meetings would be held, and because the length of time to be required for the preparation would depend upon the nature of the subject matter on the agenda of the following meeting, it would be best to decide upon the date of the following meeting at the end of each meeting. He entirely shared the views of Dr. Sze that the meetings should be held as frequently as possible. He then went on to ask whether the Chinese delegation was prepared to enter into the discussion of the question proper to-day.

BASIS OF DISCUSSION.

Dr. Sze declared that they were willing to listen to whatever the Japanese delegates might be prepared to say, but they had, for their part, nothing prepared to present to the conference.

After some discussions, it was decided that the conversations should be restricted to-day to the question of procedure.

Mr. Hanihara said perhaps the conference could take the Japanese note, under the date of September 7, 1921, as the starting point of discussions at the next meeting.

Dr. Koo stated that we could perhaps take the whole communications exchanged between Japan and China relating to the Shantung question as the basis of discussion.

Baron Kato expressed his approval.

The meeting adjourned at 4.30 p. m. to meet again at 3.30 p. m. Friday, December 2, 1921.

Then the form of the press communiqué was discussed. The Japanese delegates desired that the statement of Baron Kato should be incorporated in the communiqué, but Dr. Sze objected to this course on the ground that, owing to the incorporation in the state-

ment of several points, such as those in relation to the term "Shantung question" and the mines appurtenant to the railway, on which the Chinese delegates desired to have their observations published at the same time, and for fear that misunderstandings might be caused by the publication of the Japanese statement by itself, the Chinese delegation would rather prefer that the publication of the statement should be deferred until to-morrow. Thereupon, after certain discussion, it was decided that the communiqué should be in the form annexed herewith (Annex I).

It was decided:

- (1) That the meetings should be entirely informal.
- (2) That there should be no chairman or president for the meetings.
- (3) That as much publicity as possible should be given to the proceedings of the meetings.
- (4) That Mr. Hanihara and Dr. Koo should supervise the drafting of the press communiqué.
- (5) That the minutes should be made by the secretaries of the Japanese and Chinese delegations with the assistance of the representatives of the United States and the British Empire.
- (6) That a plenipotentiary may send a substitute.
- (7) That the whole communications exchanged between Japan and China in relation to the Shantung question should be made the basis of future discussions.
- (8) That the date of the following meeting should be decided upon at the end of each meeting.

JAPANESE DELEGATION,

Washington, D. C., December 1, 1921.

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ANNEX I.

DECEMBER 1, 1921.

[For the press.]

Issued by the Chinese and Japanese delegations.

The conversations between the Chinese and Japanese delegates relating to the Shantung question, arranged through the good offices of Mr. Hughes and Mr. Balfour, commenced this afternoon at 3 p. m. in the conference room of the Pan American Union Building.

The meeting on the part of China was attended by Dr. Sze, Dr. Koo, and Dr. Wang, accompanied by Mr. Tyau, Gen. Wang, Mr. Hsu, Mr. Chao, and Mr. Kuo; and on the part of Japan by Baron Kato, Mr. Hanihara, Mr. Debuchi, accompanied by Mr. Saburi, Mr. Kimura, Mr. Saito, and Mr. Shiratori. Mr. Hughes and Mr. Balfour, accompanied by Sir John Jordan, Mr. Miles Lampson, Mr. J. V. A. MacMurray, and Mr. Edward Bell, opened the meeting and retired, leaving the above-named American and British representatives to assist at the sessions.

The meeting discussed questions of procedure and decided to issue a communiqué at the end of each meeting. The next meeting will be held in the same building at 3.30 p. m., Friday afternoon next.

SECOND MEETING.

The second meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3.30 o'clock in the afternoon of Friday, December 2, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Philip K. C. Tyau, Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Prince I. Tokugawa, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

PRESENCE OF FRENCH OBSERVERS.

Dr. Sze said that before entering upon the conversations he wanted to ask the opinion of the Japanese delegation about the proposal which the Chinese delegation had received from the French delegation for having two French observers along with the British and American observers. He wished, with the consent of the Japanese delegation, to reply that the French request would be acceded to with pleasure.

Mr. Hanihara replied that although he and his colleagues had no special objection to the French suggestion, yet in this matter of informal conversations with the Chinese delegation they had had to obtain specific authorization from the Japanese Government; and that, moreover, it seemed to them to be proper that the pleasure of Messrs. Hughes and Balfour should be consulted in this matter. They did not, therefore, feel at liberty to make a reply either way at once.

BASIS OF DISCUSSION.

Dr. Koo said that yesterday his colleague, Dr. Sze, had expressed, in a general way, the desire of the Chinese delegation to cooperate with the Japanese delegation to the end that a speedy and just solution of the Shantung question might be arrived at. The statement he wished to make now was about the difficulty of the position of the Chinese Government in entering upon these conversations, and therefore the desirability of avoiding anything that might warrant the inference that, in agreeing to enter into the conversations, the Chinese Government had changed its attitude in regard to any of the treaties between China and Japan, as well as treaties between other Governments. It would be best, for the purpose of facilitating the progress of these conversations, to forestall the chance of any such inference being drawn. Yesterday they had agreed that the whole correspondence exchanged between China and Japan on this question

of Shantung should be made the basis of discussion. Now, the Chinese delegation was ready to listen to any observation that the Japanese delegation might see fit to make, the more so since the Chinese Government had received no response to their last note of November 4.

Mr. Hanihara stated that the proposals of the Japanese Government in regard to the Shantung question had been made in a most concrete and clean-cut way. The Japanese delegation had also caused a paper to be made in which the rights formerly held by Germany in Shantung, the position of Japan after the peace conference of 1919, and the proposals contained in her latest communication to China, made on September 7 last, were all set forth in clear contrast (Annex I). It was now his desire that a concrete exposition of the Chinese position in this matter should be made, so that these several questions concerning Shantung might be taken up one by one.

Dr. Koo said in reply that the attitude of the Chinese Government in this matter had been stated in their note of October 5, and had further been clarified in their second note of November 4. The Chinese delegation had hoped, and they still hoped, that the question of Shantung might be settled along the lines of those notes. They would be glad if their Japanese colleagues would make any suggestion for any way of bringing their views closer together. He might add, however, that the easiest and simplest way would be to disengage their minds from the complicated state of affairs created by the difference of views with regard to the various treaties which concerned China. He thought it was very necessary for the success of their conversations to confine their discussions mainly to facts as they were.

Mr. Hanihara stated in reply that he quite agreed. He had no desire to open academic questions. They would take as a basis of their discussion facts as they were. He thought it was best to take up concrete questions, item by item, and he was ready to enter into the deliberations of any question the Chinese colleagues liked.

Dr. Sze said that if the Japanese note of September 7 was taken as the basis of discussion, then the Chinese delegation would have to revert to the Chinese note of October 5, and they would thus be going round in a circle. The logical thing would be for Japan to make some new proposal as the next step.

Mr. Hanihara stated that he was not at all insisting upon making the Japanese note of September 7 the basis of discussion. His idea was that some concrete problems should be made the subject of deliberation. Otherwise they would not know where to start, and he thought that the Japanese note of September 7 and the Chinese note of October 5 contained items which could be conveniently made the subject of consideration.

Dr. Sze said that he agreed.

Mr. Hanihara suggested that perhaps they could take a certain item in the Japanese note and see whether they could come to any agreement on that particular point, and if they did, they might regard it as a provisional decision or agreement ad referendum and thus go on through all the items enumerated.

Dr. Sze said that that was agreeable, but he desired to point out that certain important questions were not mentioned in the Japanese note. One of them was the question of the salt field. There existed in China a salt monopoly. The revenue from the salt Gabelle had been assigned as security of several loans, in some of which Japanese bankers were also interested.

Mr. Hanihara assured the Chinese delegation that he did not hesitate to take up any subject but suggested that, as it might be necessary to make preparations in advance, it would be best to decide each time upon the subjects that should come up for discussion at each next meeting.

ITEM 1 OF THE JAPANESE NOTE OF SEPTEMBER 7.

Dr. Koo stated they should have some starting point; so he would begin with the first item of the Japanese note of September 7. He wanted to know whether the Japanese delegation desired to make any observation regarding that subject.

Mr. Hanihara thought that, inasmuch as they had decided to discuss concrete problems, perhaps some other item might more appropriately be taken up first. The subject matter of the item suggested by Dr. Koo had relation to the treaty of Versailles.

Dr. Koo observed that he had no desire at all to be understood as if he tried to draw into discussion the question of the interpretation as to the various treaties in dispute. Then he asked which item Mr. Hanihara desired to take up.

Mr. Hanihara signified his willingness to take up any other item and suggested that the second or third be made the subject of discussion.

Dr. Koo thought item 3, which referred to the question of the railway, represented one of the most difficult phases of the Shantung question. He wondered whether it was the intention of Mr. Hanihara to discuss it now or later.

Mr. Hanihara stated that he had no special choice, but perhaps it would be best to take up first such subject as would be susceptible of easy solution.

RAILWAY.

Dr. Sze said that he was very optimistic in coming to the meeting. It was stated to be the desire and determination of the Japanese delegation to cooperate with the Chinese delegation for a solution of the Shantung question. That sentiment was reciprocated, and he was hopeful of speedy and fruitful results even as to the difficult question of the railway.

Mr. Hanihara agreed that the question of the railway should be made the subject of discussion. He added that as he was not prepared to discuss the detailed features of that question, he preferred that the discussion should be of a general nature.

Dr. Koo observed that he felt certain that he was not exaggerating when he said that the question of Shantung Railway was one

to which the Government and people of China attached the greatest importance. Japan had proposed that the Shantung Railway should be made into a joint Sino-Japanese enterprise. He and his colleagues appreciated the desire on the part of the Japanese Government to promote the Japanese and Chinese cooperation in regard to economic enterprises in China. The idea of joint enterprise in general was not objectionable on theoretical grounds, but, confining themselves to this particular question in hand, the Chinese Government could not see their way to accept the principle of joint enterprise. The Chinese delegates hoped that the Japanese colleagues would, in view of the particular interest attached to the railway by the Chinese Government and people, accept the Chinese viewpoint in this question. If this railway were to be handed back to China and were to be administered as a Chinese Government railway, it was understood that the restitution would, of course, be effected subject to the condition proposed by the Chinese Government in their note of November 4; namely, the Chinese Government would be prepared to redeem or purchase half of the total amount of the valuation of the railway and its appurtenances. He could not but strongly emphasize the desirability of arriving at a solution of the question on that basis because that would go a long way to remove the misunderstanding and misgivings which were entertained by the whole Chinese nation. By accepting this proposal, he felt certain Japan would not only not lose any substantial advantage, but, in the long run, would have a great deal to gain, because Japan and China had many interests in common and so much to do with each other. In urging this formula he recalled Baron Kato's wise and far-sighted remark, made yesterday, that the Shantung question should be approached from a broad perspective.

Mr. Hanihara stated that as to the Kiaochow-Tsinanfu Railway Japan's proposition was to make it a joint Sino-Japanese enterprise. Having heard Dr. Koo's observations, he desired to state the position of the Japanese Government for making that proposition. To do so, he had to go back into the history of the question, not that he desired to open up any useless discussion, but just to make an exposition of what Japan regarded as a very generous proposition.

In 1918 the Chinese Government approached Japan with request for a loan of 20,000,000 yen. As conditions of that loan it was agreed that Japanese capitalists should be permitted to finance certain extensions of the Kiaochow-Tsinanfu Railway, which China proposed to construct at once. At the same time the Chinese Government urged that Japan would make a concession in favor of China by undertaking that the Kiaochow-Tsinanfu Railway should be turned over to a joint Sino-Japanese enterprise. By the arrangement of 1915 China had already agreed to approve any disposition which Japan might eventually make with Germany on the subject of the German rights in Shantung, including those relating to the Kiaochow-Tsinanfu Railway. It was, therefore, in an entirely liberal spirit on the part of Japan that she consented to yield to China a half share and half interest in that railway. The loan

requested by China was then concluded on those conditions, and the money was immediately paid to the Chinese Government.

It would thus be seen that the plan of a joint Sino-Japanese enterprise of the Kiaochow-Tsinanfu Railway was due to the initiative of the Chinese Government and had definitely been agreed upon as a condition of the loan concluded in 1918.

It now appeared that the Chinese Government proposed to repudiate its commitment on this point on the ground that the plan in question was objected to by the entire Chinese people. It did not seem to be quite fair that a party to an agreement, after having received benefits of that agreement, should refuse to be bound any longer by the terms of the same agreement. There was something more involved in the issues than a question of legal technicality.

The Japanese delegation trusted that if the whole facts were made known the Chinese people would be quick to appreciate the justice of Japan's position. The railway was formerly an exclusive German property in which China had no share or interest. It came into possession of Japan after considerable sacrifices in men and treasure, and she now proposed to turn it over to a joint Sino-Japanese enterprise in which the two parties were to stand on a fair and equal footing. It was realized that public opinion in China should not be disregarded in the adjustment of the question, but it would equally be realized that public opinion in Japan should also be weighed and considered. Japan believed that in making the present proposal she had gone more than halfway to meet China's standpoint. She hoped that she would be met by China in the same spirit of mutual accommodation.

Dr. Koo said that without, of course, the slightest intention to avoid the discussion of any phase of the subject, he would urge upon his Japanese colleagues that it would simplify their conversation and would contribute to a speedy agreement, if they could leave the question of the treaty and notes of 1915 and 1918 aside from their conversations. He need hardly point out that it was those documents that had caused great anxiety and that had been a most fruitful cause of suspicion, distrust, and misapprehension on the part of the Chinese people. Nor were the feelings of the Chinese people at this moment by any means reassuring. He would therefore urge upon his Japanese colleagues to view the question from the point of view of the actual situation and try to work out a solution satisfactory to both parties. The facts relating to the negotiations of 1915 and the circumstances under which the treaties and the supplementary notes were signed were by no means withheld from the knowledge of the public either in China or elsewhere. It was that knowledge which was responsible for the profound feeling of anxiety and disquietude of the Chinese people and also for the bad feeling between the Japanese and the Chinese nations. He would, therefore, urge that this question should be approached from the point of view of the greater interest of the friendly neighborhood and good understanding between the two countries. So far as the moneys advanced were concerned, he did not wish to digress into the political situation at the time when they were lent and the manner in which

they were used. Any advance of moneys that had been made would be fully refunded. Moreover, the private interests legitimately established and the vested rights properly acquired would naturally be safeguarded and protected. The Chinese Government would assure the Japanese Government about the refunding of the moneys and urge them to consider the question at issue in the spirit of the farsighted remarks of Baron Kato the day before.

Mr. Hanihara stated that the Japanese proposal of the joint undertaking was for Japan's part going more than halfway. They had gone so far only because they desired to promote friendship and common interests between the two powers. If there were difficulties in China on account of public opinion, Japan had the same difficulties at home, leaving for the moment from consideration the question of the rights or wrongs of the case. The Japanese people believed that the railway in question had been rightfully acquired and would not understand why it should be given up. Japan valued the friendship of China and so she had offered as much as possible in this question. Her people would say that China had insisted from the outset that the railway should be returned to China and had shown no disposition whatever to come a step forward. It would not be fair that Japan should be the only party to go forward and make concessions.

Dr. Sze remarked that he had had experiences with several railways in China and had once been the head of the Chinese Ministry of Communications. He desired to say, therefore, one word from his experience. From the point of view of the advantage, not only to China and Japan, but also to the commerce of all the powers, it would be most desirable that China should develop a unified system of management and operation of the Chinese railways. The advantages were very manifest. Under the present system it was necessary to make arrangement for the connection of the Kiaochow-Tsinanfu Railway and the next adjacent railway each time the goods were shipped. All such complications would be done away with by the adoption of the unified system. Japan would benefit, as well as China. In fact, Japan had already come halfway. Why would she not reach the goal. That would not only add much to the facilities of communication, but would bring about in a general way great improvement of the relations between the two countries. There were misgivings in China, and the feeling toward Japan was not at its best, but he hoped all such obstacles to good, friendly relations would be removed. He thought that the time was most opportune; that the benefits to be derived from the action of Japan would far outbalance any losses that might be involved. China was not selfish in this proposition, although he would admit that she would be the first to be benefited. The unified system had already proven to be of great advantage in certain parts of the country; for instance, in Kwantung Province. He was very proud to state that the results attained in Kwantung had been praised by a judicial association in New York some time ago. In view of those great benefits to be derived from the unified system, he was sure that the public of Japan would be reconciled.

Mr. Hanihara remarked that the people of Japan would not look at the question in that light. They would think that the delegates of Japan merely knew how to meet the Chinese wishes. He did not think that much progress would be made in thus exchanging general observations upon this most difficult question in regard to Shantung. He thought it might be better to hold the subject in abeyance for some time and take up easier questions to avoid a deadlock from the start. As it was not desirable to hamper the progress of the conversations and frustrate their purpose, he suggested that some easier matter might be made the subject of discussion.

Dr. Koo said that he had no objection to proceed to some other question and come back to the railway at some later meeting. But he desired to say a word or two in relation to the statement made by Mr. Hanihara to the effect that the Shantung Railway had been rightfully acquired by Japan. It was difficult for him to understand how a power could rightfully acquire a property belonging to another power which was situated in the land of a friendly country without the consent of that friendly country. He also wished to add, prosaic as might be the statement, that a joint enterprise was a thing which would not work satisfactorily unless the two parties to it were coming together in a spirit of willingness and accord. It was something like the matrimonial contract which would not be a success if the contracting parties were forced into it. Therefore it was hoped that the idea of the joint enterprise would not be insisted upon. However, leaving the question of the railway for the present, he was quite prepared to take up any other subject.

AGENDA.

At the suggestion of Dr. Sze, the agenda for the next meeting was decided as follows:

1. The customs administration (item 6, Japanese note September 7, 1921).
2. The foreign settlement and the opening of ports and cities (item 2, Japanese note September 7, 1921).
3. Public property (item 7, Japanese note September 7, 1921).

The press communiqué was decided upon in the form annexed (Annex II).

The meeting adjourned 5.30 p. m. until 3.30 p. m. Monday, December 5, 1921.

It was decided:

1. That the question of the admission of French observers be decided after consultation with Messrs. Hughes and Balfour and after consultation on the part of the Japanese delegates with their Government.
2. That the question of the railway be discussed at some later meetings.
3. That the agenda for the next meeting be the items 6, 2, and 7 of the Japanese note of September 7, 1921.

WASHINGTON, D. C., *December 2, 1921.*

ANNEX I.

Comparison of rights enjoyed by Germans and the Japanese proposals in 1919 and 1921.

I. THE LEASEHOLD OF KIAOCHOW AND THE RIGHTS AS TO THE NEUTRAL ZONE.

Rights enjoyed by Germany.	Japan's position after the peace conference at Paris in 1919.	Japanese proposals to China on Sept. 7, 1921.
<p>(a) The administrative rights in the leased territory were entirely in the hands of the Germans.</p> <p>(b) Around the leased territory Germany established a neutral zone of 50 kilometers radius with appurtenant rights.</p> <p>(c) Part of the Bay of Kiaochow was used as a naval port and strong fortifications were erected.</p>	<p>(a) The leasehold and the rights in relation to the neutral zone to be restored to China.</p> <p>(b) Japan to establish an exclusive Japanese settlement in a part of the city of Tsingtau. (The Japanese Minister for Foreign Affairs declared on August 2, 1919, that Japan had in contemplation proposals for the reestablishment in Tsingtau of a general foreign settlement instead of the exclusive Japanese settlement.)</p> <p>(c) The whole Bay of Kiaochow to be opened as a commercial port.</p>	<p>(a) The leasehold and the rights in relation to the neutral zone to be restored to China.</p> <p>(b) Japan to abandon plans for the establishment of a Japanese exclusive settlement or of an international settlement, provided that China engages to open, of its own accord, the entire leased territory of Kiaochow as a port of trade and to permit the nationals of all foreign countries freely to reside and to carry on commerce, industry, and agriculture or any other lawful pursuits within such territory, and that she further undertakes to respect the vested rights of all foreigners.</p> <p>(c) The whole Bay of Kiaochow to be opened as a commercial port.</p> <p>(d) China to carry out forthwith the opening of suitable cities and towns within Shantung for residence and trade of the nationals of all foreign countries.</p> <p>(e) Regulations for the opening of places mentioned in the foregoing items to be determined by China upon consultation with the powers interested.</p>

II. RIGHTS RELATIVE TO THE RAILWAYS.

(1) SHANTUNG RAILWAY.

<p>(a) Management and organization:</p> <p>The railway was constructed by a German company on the strength of a license issued by the German Government, which had obtained full concession for the railway from the Chinese Government.</p>	<p>(a) To make it a joint Sino-Japanese enterprise in point of capital and management, both in name and fact.</p>	<p>(a) To make it a joint Sino-Japanese enterprise in point of capital and management both in name and fact.</p>
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Comparison of rights enjoyed by Germans and the Japanese proposals in 1919 and 1921.—
Continued.

I. THE LEASEHOLD OF KIAOCHOW AND THE RIGHTS AS TO THE NEUTRAL ZONE.

Rights enjoyed by Germany.	Japan's position after the peace conference at Paris in 1919.	Japanese proposals to China on Sept. 7, 1921.
<p>(b) Policing of the railway: The police power belonged to China but the whole police force was under the actual control of the German adviser.</p> <p>(c) The mines appurtenant to the railway were under practically exclusive German management.</p>	<p>(b) China to organize the police force and Japanese instructors to be appointed on the recommendation of the directors of the railway.</p> <p>(c) These mines also to be worked as a joint Sino-Japanese enterprise.</p>	<p>(b) Japan to make special arrangement with China as to the organization of the special police to safeguard the railway. Japan to withdraw her troops along the railway as soon as she receives the announcement from the Chinese Government that such police force has been organized.</p> <p>(c) These mines also to be worked as a joint Sino-Japanese enterprise.</p>

(2) OTHER RAILWAYS.

<p>The options relative to the Kaomi-Hsuchow Railway and the Tsinan-Shunteh Railway, and also the options relative to the Yentai-Weihsien and Kaipin-Yenchow Railways were held by the Germans.</p>	<p>Japan to succeed to the German rights.</p>	<p>Rights relating to the extension of the Kiaochow-Tsinanfu Railway as well as options for the construction of the Yentai-Weihsien Railway to be thrown open for the common activity of the International Financial Consortium in China.</p>
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III. OPTIONS IN REGARD TO THE SUPPLY OF MEN, CAPITAL, OR MATERIAL.

<p>Germany enjoyed such options.</p>	<p>Japan to succeed to the German rights.</p>	<p>Japan to give up those rights.</p>
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IV. THE CUSTOMS HOUSE AT TSINGTAO.

<p>The customs house at Tsingtao belonged to the general customs system of China, but several privileges were given to Germany.</p>	<p>Japan to succeed to all German rights and privileges except those which are concomitant to leasehold..</p>	<p>The status of the customs house as forming an integral part of the general customs system of China to be made clearer than under the German régime.</p>
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V. THE GERMAN PUBLIC PROPERTY WITHIN THE LEASED TERRITORY.

<p>It belonged to the German Government.</p>	<p>Japan to succeed to the German ownership and the arrangements for its final disposal to be made between Japan and China.</p>	<p>Public property used for administrative purposes to be in general transferred to China, it being understood that the maintenance and operation of the public works and establishment shall be previously arranged between Japan and China.</p>
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ANNEX II.

DECEMBER 2, 1921.

[For the press.]

At the first meeting of the Chinese and Japanese delegates held yesterday in the Pan American Union Building, relative to the question of Shantung and in response to the opening remarks of Mr. Hughes and Mr. Balfour expressing their gratification in the acceptance on the part of China and Japan of their good offices and their desire to extend their friendly intervention with a view to secure a fair and satisfactory arrangement of this question, Baron Kato and Dr. Sze replied as follows:

Baron KATO. (Text the same as quoted in the minutes of the first meeting.)

Dr. SZE. I desire first of all to express on behalf of the Chinese delegation the sincere thanks and appreciation for the friendly and good offices that you two gentlemen have offered on behalf of your two countries in bringing about conversations with a view to a fair settlement of the Shantung question. I need not add anything more to what I said yesterday at the general meeting of the full committee.

The Shantung question is one of vital importance to China. Its importance to China and the difficulties connected therewith are too well known to all to need any remarks by me to-day. It is universally admitted that the condition is unsatisfactory and that an early and speedy solution, fair and just and satisfactory to the desires and aspirations of the Chinese people, is necessary.

I join with you all in the hope that our conversations will be fruitful of results, resulting in a fair and just settlement.

With reference to the observation of Baron Kato that the Japanese Government was not unmindful of the difficulties which have confronted the Chinese Government in regard to the method of settling this question, the Chinese delegation is gratified that these difficulties have been perceived by the Japanese delegation—difficulties which have made necessary the resort to the present procedure which, under the good offices of Mr. Hughes and Mr. Balfour in behalf of their respective Governments, has been initiated.

The conversation was resumed at 3.30 this afternoon together with the American and British representatives. Prince Tokugawa replaced Baron Kato in representing Japan at this session.

It was agreed on the part of the two delegations that, in discussing the Shantung question, they would take the actual facts and not the academic viewpoints as the basis of discussions, which will be for the sole purpose of promoting mutual understanding and good neighborhood between China and Japan and without giving ground for the least inference that the discussions will be based upon the treaty arrangements which had been in dispute between these two countries or others.

An interchange of views on the question of Kiaochow-Tsinanfu Railway then took place and this discussion will be continued at another meeting.

The next meeting will be held at 3.30 Monday afternoon.

THIRD MEETING.

The third meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3.30 in the afternoon of Monday, December 5, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Philip K. C. Tyau, Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuan-Chao, Mr. Telly Howard Koo.

Japan.—Prince I. Tokugawa, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

CUSTOMS.

Mr. Hanihara said that the meeting was to take up the question of customs to-day. Before that, however, he wanted to call attention to item 4 of the Japanese memorandum of September 7, in which it was declared that Japan would renounce all rights with regard to foreign assistance in persons, capital, and material stipulated in the Sino-German treaty of March 6, 1898.

He then desired to point out that the maritime customs house at Tsingtao under the German régime had had several unique features in contrast with other customs offices in China, in accordance with the Sino-German agreements of 1889 and 1895. Among them, the following features might be mentioned:

(a) Members of the European or foreign staff should, as a rule, be of German nationality.

(b) The German language should be made the ruling official language in the customs office.

(c) Certain articles should be duty free; for instance, articles for use by German troops, machinery and similar articles for use in the leased territory, etc.

(d) The establishment of the free area.

(e) The payment to the German Government of a certain proportion of the import duties.

The Japanese Government now proposed to make the customs at Tsingtao an integral part of the general customs system of China, simultaneously with the restitution of the leased territory.

It was, however, hoped that China would be willing to extend facilities in the matter of language to the Japanese traders who had no command either of Chinese or English, and therefore it was desired:

(a) That Japanese should be recognized as one of the official languages for the Tsingtao customs in the same manner as Chinese or English.

(b) That the same considerations should govern the selection of the personnel of the Tsingtao customs; in other words, that a sufficient number of officials versed in the Japanese language should be appointed.

Dr. Sze said that China desired to have a customs system uniform at all places. It would be very difficult to allow a certain language to be recognized as one of the official languages at a certain customs office and to deny the same practice at other places. If the Japanese language was to be so recognized at Tsingtao, others might desire some other language to be so treated and there would be no end—even the Czecho-Slovaks might come out and demand a like privilege. It was impossible for China to adopt a third official language at any of her customs offices. It would be very cumbersome if all notices and instructions had to be written in three languages—Chinese, English, and Japanese. There were a great number of French people who were engaged in trade in China, but they had never asked for such a privilege. The Chinese Government could pledge themselves to give every facility to the Japanese traders at the customs at Tsingtao. Moreover, there was much similarity between the Japanese and Chinese languages, so that he did not think it would take long for the Japanese to learn Chinese.

Mr. Hanihara observed that special consideration should be given to the Japanese trade, which represented an overwhelming portion of the trade of Tsingtao, as figures in his hand showed. He did not think that the Japanese proposal was at all unreasonable. He was not asking for the privileges enjoyed by the Germans under their régime, but was only desiring the Chinese Government to recognize the conditions actually prevailing in Tsingtao.

Dr. Sze stated that for the past few years the conditions in Tsingtao had been exceptional and abnormal. Under ordinary conditions there would be decidedly more trade carried on by British and American merchants. Nothing was farther from his thought than to intimate that he wanted to discourage the Japanese trade, but he did not consider that the figures for the last two years could be made the basis of a special claim.

Mr. Hanihara said that it was of course very difficult to talk about the future, but if the present conditions could point to anything it might be safely forecast that the Japanese trade in Tsingtao would steadily increase.

Dr. Sze repeated that the Chinese Government would be ready to recommend the Inspector General of the maritime customs to afford facilities to the Japanese traders. His sole intention was not to encumber the task of the customs office. He would cite the cases of other Chinese ports, such as Hangkow, where a great number of Japanese were engaged in trade, but where only the English and Chinese languages were used.

Mr. Hanihara repeated his observation that the actual situation should be taken into consideration.

Dr. Sze pointed out that during the war all European steamship lines were stopped and trade with western countries was suspended.

Mr. Hanihara then pointed to the decided preponderance, by a wide margin, of the Japanese trade in Tsingtao in 1919 compared with the trade of other countries. The total trade of Tsingtao

amounted to a little over 87,000,000 Mexican dollars, of which 60,000,000 Mexican dollars was represented by Japanese trade. The difference between the conditions under the German régime and those proposed by the Japanese Government should be emphasized.

Dr. Sze said that he was given to understand that something decidedly better was to be offered, but, he pointed out, an exceptional feature was going to be attached to the Tsingtao customs—a feature which was absent at any other port in China.

Mr. Hanihara here emphasized the difference of the character of the Japanese traders in Tsingtao from those at other ports in that at Tsingtao there were a great number of small traders who understood neither English nor Chinese.

Dr. Koo said that it was his opinion that the growth of Japanese trade in the Chinese ports had nothing to do with the use of the Japanese language. The Japanese trade in Tsingtao was placed in a very favorable position and the use of the Japanese language did not seem to him to be essential to its growth. It was perfectly true that under the German régime the German language was recognized as the official language, but Japan had offered to restore the Kiaochow leasehold to China and to make the Tsingtao customs an integral part of the Chinese customs system. He hoped that Mr. Hanihara would not try to diminish the luster of this offer by attaching conditions to it.

Mr. Hanihara admitted the use of the Japanese language was not the main cause of the development of Japanese trade. But, at the same time, the great facilities that would accrue to the Japanese from the use of their own language in the Tsingtao customs could not be denied. That facility was at present being enjoyed by the Japanese, and were it to be suddenly taken away from them their suffering would be great indeed. There was no desire or intention whatever to interfere with the interest of other nationals or with the customs system of China. The importance of the matter could only be realized if it had been considered in the light of the actual interests of the Japanese traders, especially the smaller merchants.

Sir John Jordan suggested the possibility of some arrangement being made by which proper and full facilities might be provided for the Japanese.

Dr. Sze suggested that the difficulty of the Japanese traders might be met by having an official translator in the customs office.

Mr. Hanihara said he did not necessarily insist upon having Japanese as one of the official languages, but only upon an arrangement being made by which papers written in the Japanese language could be accepted at the Tsingtao customs.

Dr. Sze did not consider it fair that the customs commissioner should be made to reply in Japanese to papers written in that language.

Mr. MacMurray said that, while he might be in the wrong, his understanding was that Japan was merely asking for the use of the Japanese language for customs papers, not in the sense that notices, instructions of the commissioner general, correspondence, etc., should all be made in Japanese, but that Japanese should be permitted to file their papers in Japanese. He asked Mr. Hanihara if that was not the point.

Mr. Hanihara said that he expected notices, instructions, and the like should also be given in Japanese and that he thought this could be done easily by employing at the customs office men versed in the Japanese language.

Sir John Jordan inquired of the Chinese delegates about the actual practice at other ports; for instance, such as Harbin and Hangkow.

Dr. Sze replied that at Harbin no Japanese were employed except a few in connection with railways. At the Hangkow customs the languages officially used are English and Chinese. There were there many French merchants, and they could address their communications in French, which would always be answered in English. It would not be fair for the customs commissioner to be required to sign documents written in a language which he did not understand.

Mr. Hanihara said he noted that the Chinese delegation pledged all possible facilities for the Japanese traders at the port of Tsingtao, and he suggested that the rest be left to the arrangement between the inspector general and the Japanese minister at Peking.

Dr. Sze thought it better, in order to avoid the possibility of misunderstanding, to have a definite decision right here.

Dr. Wang suggested the employment of Chinese at Tsingtao who understood Japanese in order to take care of all papers written in Japanese.

Mr. Hanihara hoped that his Chinese friends would take into consideration the actual situation in Tsingtao, where there were many small Japanese traders whose interests had to be protected. He did not see how it could be difficult for his Chinese colleagues to agree to this very reasonable proposal, which was not calculated to be detrimental in the least to the trade interests of other countries nor to the customs system of China.

Dr. Sze, in this connection, made reference to his own experience in Harbin, where the Japanese consul general, who understood English, French, and Russian, persisted in writing to him in Japanese. He had nobody with him who understood Japanese and had to undergo much difficulty on that account. He would not have mentioned this incident had not Mr. Hanihara pressed him so hard.

Mr. Hanihara did not know anything about the incident, but he supposed it was because of the common practice for diplomatic officers to write official notes in their own language.

Dr. Sze pointed out that the same consul general wrote to his colleagues from other countries in Harbin in English or French, as the case might be.

Dr. Koo thought the spirit of the Japanese proposal in this whole matter of the Tsingtao customs was admirable, but he did not see how the recognition of the use of the Japanese language could make the Tsingtao customs more clearly an integral part of the Chinese customs system.

Mr. Hanihara again dwelt upon the many privileges enjoyed by the Germans which Japan now proposed to relinquish, the use of the Japanese language being the only one desired by Japan.

Dr. Koo asked if all these privileges were to be given up without any conditions.

Mr. Hanihara said that there might be some other minor privileges besides those enumerated by him at the outset, but that it was intended to waive all these privileges except this matter of language.

Dr. Sze inquired if that was the only point insisted upon.

Mr. Hanihara referred Dr. Sze to the concrete proposal he had made early in the meeting. Japan desired to have Japanese made one of the official languages and to have officials versed in the Japanese language appointed at the Tsingtao customs office.

Dr. Sze had just understood that the question of language was the only point insisted upon. He had purposely inquired whether that was the only point Mr. Hanihara desired to insist upon, but he now found that there was another proposal. That made the conversation impossible.

Mr. Hanihara said that the second point was a corollary of the first. He did not approach the whole question in a petty spirit of discussion, but, on the contrary, in a most friendly spirit, which he hoped would be reciprocated by his Chinese colleagues.

Dr. Koo asked if he was to understand that if the first point was not agreed to, the second would naturally be dropped.

Mr. Hanihara said the two points were related to each other.

Dr. Koo said that the Chinese delegates wished to facilitate progress and that the useful discussion they had on this point made things clearer than at the beginning. They were now prepared to meet the Japanese proposal halfway. To that end he would propose some such formula as this: "The Chinese Government will make a recommendation to the Inspector General of the Chinese maritime customs with a view to permitting the Japanese traders at Tsingtao to communicate with the said customs in the Japanese language." He hoped that that would make things easier for the Japanese traders.

Dr. Wang said that the above formula would dispose of the second point inasmuch as by that arrangement the employment of officials versed in the Japanese language would be made necessary.

Mr. Hanihara said the Japanese proposal was not made in the form of a demand; that it was merely the expression of a desire on the part of the Japanese Government, with a view principally to the actual conditions at Tsingtao. In this connection he would point to the difference again between the conditions under the German régime and the Japanese proposition.

Dr. Koo said that the selection of customs officials must be left to the discretion of the Inspector General, he being the person who knew best who would be most suitable for the positions in the customs office.

Dr. Sze mentioned the fairness with which the Inspector General had discharged his duties these many years, and how no complaint of partiality in the matter of the appointment of officials was ever made.

Mr. Hanihara said that theoretically he had nothing to say against that system, but that, as a matter of fact, and as experience in the past seemed to tell, disagreeable incidents might arise from the absence at the Tsingtao customs office of a sufficient number of persons who understood the Japanese language. What Japan wanted in this respect was very little though she might ask much if she wanted to.

Dr. Sze wanted to be informed of the facts of the unpleasant experience referred to by Mr. Hanihara, so that the Inspector General might look into them.

Mr. Hanihara said that he did not want to enter into that discussion.

Dr. Koo desired to have the second Japanese proposal made clear once more. (He was given the typewritten copy of the two Japanese proposals.) Dr. Koo found out that the Japanese proposals had not been made as a condition to the surrender of the Tsingtao customs, but only as Japan's wish.

Mr. Hanihara said it was the wish of the Japanese Government to have those two points given favorable consideration.

Dr. Koo said he would propose a tentative formula that the Chinese Government would make a recommendation to the Inspector General that in his selection of the staff of the Tsingtao customs consideration be given, within the limits of the established service regulations, to the diverse needs of the port of Tsingtao. He thought the formula met the Japanese wish as far as possible without at the same time tying the hands of the Inspector General too much.

Mr. Hanihara said the formula would be acceptable if it was made clear that the words "diverse needs" covered the matter of Japanese language.

Dr. Koo thought there was no doubt that the Inspector General would take that point into consideration in his selection of the customs staff; but he did not desire to have any discussion in detail about what the Inspector General should do.

Mr. Hanihara thought it would be desirable to have that point made clear, so that difficulty might be avoided in future.

Dr. Koo considered it inadvisable to specify and enumerate the needs mentioned in the formula.

Mr. Hanihara tentatively agreed to the formula, and suggested that all questions thus tentatively agreed upon would later be taken up for final consideration.

Dr. Sze emphasized the necessity of impressing the public with the results accomplished at these conversations. So he was anxious to have a definite decision arrived at upon this question of customs.

Mr. Hanihara agreed; only he wanted to have the phrase "diverse needs of the port" changed so as to mean the trade needs of the port. (After some discussion the phrase "diverse needs of the trade of Tsingtao" was suggested and agreed upon.) He once more desired to make it clear that all the decisions and declarations made in regard to the Tsingtao customs would be taken, along with decisions and declarations that might be made in the course of the conversations, as part and parcel of the entire agreement on the Shantung question. (It was agreed that this point would unequivocally be recorded in the minutes.)

1. It was decided that, simultaneously with the restitution of the leased territory of Kiaochow, the customs house of Tsingtao be made an integral part of the Chinese maritime customs, with the understanding (I) that the Chinese Government make a recommendation to the Inspector General of the Chinese maritime customs, with a view to permitting the Japanese traders at Tsingtao to communicate with the said customs in the Japanese language; (II) that the Chinese Government make a recommendation to the Inspector General of the Chinese maritime customs that in the selection of a suitable staff for the Tsingtao customs consideration be given within the limits of its established service regulations to the diverse needs of the trade of Tsingtao.

ABROGATION OF THE SINO-JAPANESE PROVISIONAL AGREEMENT OF 1915.

Dr. Koo asked Mr. Hanihara whether it could be understood that the Sino-Japanese provisional agreement of August 6, 1915, regarding the Tsingtao customs would naturally be abrogated as a result of the above understanding.

Mr. Hanihara agreed. He desired, however, to make it clear that that was to be regarded as a part of the entire agreement on the whole question of Shantung, which he hoped would be finally reached.

2. It was decided that the provisional agreement between Japan and China, relative to the maritime customs office of Tsingtao, of August 6, 1915, be automatically abrogated as soon as the decision in regard to the Tsingtao customs came into effect.

AGENDA.

The Chinese delegation wondered whether the question of the railway could not be discussed instead of the question of public property and the opening of ports and cities, as had been arranged at a previous meeting. After a few exchanges of views, it was decided that the latter two questions should be first discussed, but that as soon as they were disposed of, the question of the railway should be taken up.

3. It was decided that the question of the railway should be discussed as soon as the questions in the agenda were gone through.

PRESS COMMUNIQUÉ.

The press communiqué was agreed upon in the annexed form (Annex I).

At 5.30 p. m. the meeting adjourned until 3 p. m. Tuesday, December 6.

WASHINGTON, D. C., *December 5, 1921.*

SJC—3.

ANNEX I.

DECEMBER 5, 1921.

[For the press.]

The Chinese and the Japanese delegates met at 3.30 this afternoon at the Pan American Union Building. Mr. Hanihara made the following declaration: "Japan will renounce all preferential rights with regard to foreign assistance in persons, capital, and material stipulated in the Sino-German treaty of March 6, 1898." The question of the maritime customs of Tsingtao was then discussed. After an interchange of views, they have decided that the said customs will be made an integral part of the Chinese maritime customs, with the understanding, first, that the Chinese Government will make a recommendation to the Inspector General of the Chinese maritime customs with a view to permitting the Japanese traders at Tsingtao to communicate with the said customs in the Japanese language; second, the Chinese Government will make a recommendation to the Inspector General of the Chinese maritime customs that in the

selection of a suitable staff for the Tsingtao customs, consideration be given within the limits of its established service regulations to the diverse needs of the trade of Tsingtao. With these two understandings the Japanese delegates waived all of the privileges formerly enjoyed by the Germans in relation to the maritime customs at Tsingtao. The provisional agreement between Japan and China relative to the maritime customs office of Tsingtao on August 6, 1915, will be automatically abrogated when the above-mentioned decision comes into effect.

The meeting adjourned to meet at 3 o'clock to-morrow afternoon

FOURTH MEETING.

The fourth meeting, held in the governing board room, the Pan American Union Building, Washington, D. C., at 3.30 o'clock in the afternoon of Tuesday, December 6, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Prince I. Tokugawa, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

PUBLIC PROPERTY.

Mr. Hanihara said that the subject matter to be discussed to-day was public property.

Dr. Sze questioned what was the meaning of the phrase "in general," used in the Japanese memorandum of September 7.

Mr. Hanihara desired to explain the Japanese position. In the memorandum of September 7 the Japanese Government stated that "public property used for administrative purposes within the leased territory of Kiaochow will, in general, be transferred to China, it being understood that the maintenance and operation of public works and establishments shall be previously arranged between the Japanese and Chinese Governments."

He then read a statement, as follows:

"(1) Public property used for administrative purposes" consists of:

"(a) Property which originally belonged to China and was transferred to Germany at the time of lease;

"(b) Property acquired or buildings or works constructed by Germany during the German régime; and

"(c) Property acquired or buildings or works constructed by Japan during the Japanese occupation.

"(2) In the Japanese memorandum of September 7 last, it was stated that such property would, in general, be transferred to China. The words 'in general' were advisedly used, it being contemplated to retain a few buildings and premises for the use of the Japanese consulate to be established there. Further, Japanese public schools, a cemetery, shrines, and other properties of similar nature shall be handed over to the Japanese community for maintenance and preservation.

"(3) Public works, such as roads, waterworks, parks, drainage, sanitary equipment, etc., shall be handed over to China. In view, however, of their close bearing upon the interests and welfare of the general public, it is desired that suitable arrangements be first made to insure their satisfactory maintenance and management.

"(4) Enterprises relating to electric light and telephone, stockyard, etc., hitherto under Government management, shall be handed over, on suitable conditions, to Chinese corporations to be newly organized with Chinese and foreign shareholders."

Dr. Koo desired to know whether the idea of the Japanese delegates in making such classification was that the mode of restoration should be different according to the classes.

Mr. Hanihara replied that the classification was made just to explain what sort of public property existed in Kiaochow. Of such public property Japan would return to China such portion without compensation as they themselves had acquired without compensation.

Dr. Koo desired to know if that proposition referred only to class (c) above enumerated.

Mr. Hanihara explained that the proposition covered not only (c) but also (b). All such property as Japan had to obtain by payment on her part would have to be compensated for by the Chinese Government.

Dr. Sze remarked that it appeared as if Japan desired not to return the public property in Kiaochow to China but to sell it. He suggested, with a view to avoiding unnecessary misunderstanding, that the Japanese delegation would prepare an informal statement precisely enumerating such buildings and works as the Japanese Government desired compensation for.

Mr. Hanihara answered that the Japanese delegation did not possess any detailed information about the public properties in Tsingtao. He wondered whether that was not also the case with the Chinese delegation.

Dr. Sze said that they had no detailed information either. But he did not exactly see what the Japanese delegation wanted.

Mr. Hanihara said that the idea of the Japanese delegation was to appoint a commission to investigate the matter in detail on the spot, for the purpose of determining which buildings and works should be compensated for and which not. If he was pressed too much, he had to fall back on the treaty and to state that the Japanese Government now owned all public properties which had belonged to Germany. He felt that what Japan was proposing was a very generous and reasonable offer, because Japan was going to give to China all public properties, only asking for reasonable compensation for such as had been paid for by the Japanese Government.

Dr. Koo stated that he desired, of course, to leave the question of the treaty out of consideration. He felt, however, that he was in duty bound to reiterate the position of China whenever he heard the affirmation that Japan had lawfully acquired the leased territory of Kiaochow. He did not wish that the position of the Chinese delegation be misunderstood. It had been agreed that from the point of view of present consideration their respective positions vis-à-vis various treaties would not be touched.

Dr. Sze pointed out that there were enumerated in paragraph 2 of Mr. Hanihara's statement the Japanese consulate, public schools, etc. He wanted to have a list of exactly what the Japanese Government desired to retain.

Mr. Hanihara said he did not have a complete list, but that the public market was among the properties to be retained. He could assure his Chinese colleagues, however, that nothing unreasonable would be retained. He had no "joker" in his proposition.

Dr. Sze stated that the Chinese delegation would have to face questions from their people.

Dr. Wang observed that the statement of the Japanese delegation was in very broad terms. For instance, the phrase "other properties of similar nature" might mean anything. He desired that the Japanese delegation would specify the public property they desired to retain.

Mr. Hanihara said that while he was unable to enumerate such public properties exactly, he could give a few examples; for instance, the headquarters of the Japanese Association, the Commercial Museum, the crematorium, the public market, a few statues, epitaphs and cenotaphs. About all these agreement could easily be arrived at if a committee was appointed to make an investigation on the spot.

Dr. Koo thought that, in order to facilitate the progress of discussion, it would be best to set aside for the moment such details and discuss the general principle first.

Mr. Hanihara said that he quite agreed.

Dr. Koo stated that, in the first place, the Chinese delegation did not feel that they could accept the principle of compensation for the public properties. They were mostly real property which was in the nature of fixtures to the territory itself. The question was not of the acquisition of such public properties but of their restoration. If the question of compensation was eliminated, the matter would be simplified. If that point was accepted, then the Chinese delegation would agree to go into a detailed examination of the points raised by the Japanese proposal. Evidently there were certain classes of property whose retention by Japan the Chinese delegates would be disposed to consider. In any case, however, he desired to reiterate that he and his colleagues could not accept the principle of compensation.

Mr. Hanihara regretted that he could not agree. Not that he wanted to go into the question of the treaty, but he would again point to the great sacrifices in men and money through which Japan had acquired her rights in Tsingtao. It was only fair that Japan should ask for some compensation. As for the amount to be asked, he assured his Chinese friends that it would be reasonable in all cases.

Dr. Koo stated since the sacrifices made by Japan in the acquisition of the properties were mentioned by Mr. Hanihara he desired to be

permitted to refer to the Chinese note of November 4, a passage of which read to the effect that innumerable losses and damages had been sustained by the Chinese people in Shantung as a result of the Japanese occupation of Tsingtao.

Mr. Hanihara wondered what damage the stationing of Japanese troops along the railway could have caused to the Chinese people.

Dr. Sze said that the Chinese delegation were ready to submit a list of damages and losses sustained by the Chinese people.

Mr. Hanihara said that he was not prepared to take up that matter. Japan did not remain in Shantung of her own choice; but, since the Chinese Government would not consent to make suitable arrangements, she had been forced to remain there.

Dr. Koo remarked that it was difficult for China to prevent Japan from remaining in Shantung: it would be still more difficult to prevent Japan from leaving it.

Mr. Hanihara wondered whether they were not drifting back to the academic discussions. He suggested that his Chinese friends might, at least, consent in principle to the payment of compensation.

Dr. Koo said that, leaving aside for the moment that question of principle which the Chinese delegation could not accept, they would be prepared to consider the certain exceptions of suitable character mentioned in Mr. Hanihara's statement.

Mr. Hanihara stated that the properties had been duly acquired and Japan had paid the price for them, and therefore he thought that the principle of compensation should be admitted.

Dr. Sze remarked that Japan had already had the full enjoyment for a long time of such property, and that that ought to be enough compensation.

Mr. Hanihara said that he could not accept such a view.

Dr. Koo inquired whether it was Mr. Hanihara's view that such compensation should always take a material form; whether the luster and glory of victory would not have been sufficient compensation for Japan for her actual losses and expenses. He thought that the whole question should be approached from the broader perspective, as had been suggested by Baron Kato. They could not say in the communiqué that the whole afternoon had been spent in the discussion of the compensation for a handful of public properties in Shantung.

Mr. Hanihara repeated that the Japanese proposition was founded on reasonable grounds in view of the actual expenditure made by Japan.

Dr. Sze referred to the attitude of America in regard to Cuba. America cleaned the country and spent a great amount of money for its development, yet America never asked the Cubans to make compensations.

Mr. Hanihara said that it had not been agreed to approach the Shantung question in the spirit of charity and philanthropy.

Dr. Koo said that one of the reasons why the Chinese people had opposed the direct negotiations between Japan and China as to the Shantung question had been the fear that some serious conditions might be attached to the restitution of Kiaochow. They never had suspected that compensation would have been implied when it was proposed that the public properties would in general be transferred to China.

Mr. Hanihara stated that Japan could retain all public properties, if she would.

Dr. Koo signified that that was where they disagreed.

Dr. Sze remarked that Japan was going in reality to sell those properties instead of returning them.

Mr. Hanihara said that Japan was not going to sell things to China; she was asking simply for adequate compensation in cases where expenditure had been necessary on her part.

Dr. Koo referred to the language used in paragraph 4 of the Japanese note of September 7. He did not think that that contained any claim for compensation.

Mr. Hanihara said that Japan did not propose to retain anything material and important.

Dr. Koo said that if it could be agreed that the principle of compensation should be dropped, then the Chinese delegates were ready to consider suitable exceptions; namely, the cemetery, the public school, etc., which would be retained by the Japanese residents.

Mr. Hanihara said that that was a matter of course; but he had to insist upon the principle of compensation.

Dr. Koo said that he had understood that Japan was making a voluntary offer to restitute the territory of Kiaochow. It would naturally have been expected that there should be as few conditions as possible attached to it. As he had remarked the day before, he would like to see the luster of the generous proposition of Japan remain unimpaired.

Mr. Hanihara said that his Government were advancing as few conditions as possible in this question.

Dr. Koo cited the case in private law where a person built a house on another man's land, and said that in such a case compensation was not to be granted. He did not mean to argue that way, but he only mentioned it in his eagerness to persuade his Japanese colleagues to give up the demand for compensation.

Mr. Hanihara asked if the Chinese delegation was ready to offer compensation for some of the properties, at any rate.

Dr. Koo answered that, in so far as those public properties mentioned under the second paragraph were concerned, the Chinese delegation were ready to do more than pay compensation; they were willing that these should be retained by the Japanese.

Mr. Hanihara asked Dr. Koo if, laying aside the point of compensation, he had any observation to offer on the other points of the Japanese proposition.

Dr. Koo remarked that, apart from the question of compensation, they were prepared to make suitable exception in favor of the Japanese community from among the public properties to be handed over to China.

Mr. Hanihara thought they had to go back to the origin of the Japanese rights in order to fully appreciate the spirit of the Japanese proposition. Japan proposed to return all these public properties in Shantung which she could retain if she wanted to. She was asking, instead, only compensation. As for cemeteries, schools, and the like, Japan was going to keep them. There could be no question of asking permission for their retention.

Dr. Koo remarked that it would facilitate the progress of the discussion if it was kept in mind throughout that Kiaochow had always been a part of Chinese territory.

Mr. Hanihara said that they fundamentally differed on that point. Kiaochow had been taken away from China, and Japan was now offering to restore it to China's sovereignty. It was now actually in the possession of Japan. He thought that they were going to take the facts as they were.

Dr. Sze pointed out that there was the expression "eventual restoration" on one of the Japanese official notes, and he expressed surprise at seeing that phrase now turned into "eventual selling."

Mr. Hanihara said that it did not seem to him that the Chinese delegates viewed the question in a correct light. There was no question of asking compensation for the restoration of Kiaochow. The question was only about certain public properties for the acquisition of which Japan had to pay the expenses. It was only fair that these expenses should be refunded.

Mr. Hanihara, continuing, said that it was apparent they could not come to an agreement about the first and second points of the Japanese proposition, and he wondered what his Chinese colleagues had to say about the third and fourth.

Dr. Koo said that the public properties coming under item 4 were evidently properties that would belong to the municipality, and that it would be proper that these should be given over to the Tsingtao municipality which would be set up by China. He did not see why so much anxiety should be entertained about the maintenance and management of these properties, because it was as much the interest of China as of anybody else that they should be kept in good order.

Mr. Hanihara agreed to Dr. Koo's remark in theory, but he thought it would turn out to be the interest of China as well as the foreign community in Tsingtao if proper arrangement was made whereby these public properties could be kept in good condition.

Dr. Koo repeated that no one could desire more than the Chinese authorities to have them in good condition.

Dr. Wang cited the instance of the German settlement in Tien-tsin, which had been taken up by the Chinese authorities during the war and maintained in perfect condition.

Dr. Koo asked what was meant by "suitable conditions" mentioned in the fourth paragraph of the Japanese proposal.

Mr. Hanihara said it was proposed that Chinese corporations should be newly organized, with Chinese and foreign shareholders. It would be necessary to arrange in what proportion the shares should be given to foreigners and Chinese and to provide suitable arrangements by which the public utilities might be worked satisfactorily.

Dr. Koo said that the Chinese Government would naturally see to that matter. If his experience in all countries, outside China, could not be altogether misleading, he thought that there were no fixed standards by which to judge the efficiency or inefficiency in different cases. There was always a minority who would be finding fault and be seeking improvements. It was just the same with Tsingtao under Japanese occupation. There recently appeared a series of articles by Mr. J. E. Doyle in the China press, criticizing the Japanese administration of public utilities. He read a passage from the

articles which was to the purport that there was in Tsingtao insufficient water supply, poor electric light, and irregular telephone management, and that there was no improvement whatever in seven years of Japanese occupation. He did not attach too much importance to such criticism; he knew there were faultfinders everywhere.

Mr. Hanihara asked if it was proposed that these public utilities should be run entirely by the Chinese Government, and wondered if they were not managed by the local government under the German régime.

Dr. Koo suggested that these public utilities and works should be turned over to the Chinese local government.

Mr. Hanihara said it would be desirable if a municipal council upon which foreign interests were represented took care of those properties. He mentioned the presence of a great many Japanese in Tsingtao, whose interests the Japanese Government were naturally anxious should be looked after.

Dr. Koo said that that solicitude on the part of the Japanese Government was quite natural, but he thought it was not necessary. He thought it would be easier and would be more conducive to good feeling if it was handed over to the local authority.

Mr. Hanihara remarked that, unless proper arrangements were previously agreed to, it was hard for the Japanese delegation to feel assured that the interest of foreign residents would be fairly protected. He disclaimed distrust on his part of the Chinese authorities, but he said there were many treaties of a political character which had like conditions attached to them.

Dr. Koo said that the Chinese delegation was prepared to give general assurance that the interests of the foreign community would be safeguarded.

Mr. Hanihara stated that it seemed to him inadvisable not to have a practical arrangement on that point. He did not know what kind of municipal government was going to be set up in Tsingtao, but he thought something along the line of the system adopted at Shanghai and other settlements might be applied to the present case.

Dr. Koo said that no concrete project had been worked out as yet concerning Tsingtao, but that it was such an important trading port that it was impossible for the Chinese Government not to do its best to promote and facilitate the foreign interests there. That would be the spirit of the Chinese Government toward the foreign interests and foreign residents in Tsingtao. He therefore thought that there need be no apprehension on the part of the Japanese on that score.

Dr. Koo said he would summarize the views of the Chinese delegation in the following way:

The Chinese delegation could not accept the principle of compensation even if that was limited to certain classes of public properties only. If the Japanese delegation would consent not to insist upon compensation the Chinese delegation would be prepared to consider the certain suitable exceptions to be made in favor of the Japanese community in Tsingtao. As for the third and fourth points in the Japanese proposition, the Chinese delegation considered the public works and enterprises ought to be restored to China in order that

they might in turn be handed over to the municipal government of Tsingtao, and the latter would take all the necessary measures to maintain them in good condition.

Mr. Hanihara said that he was not able to yield on the first point (compensation) and hoped that the question might be discussed later. He hoped the Chinese delegation would reconsider the matter. He hoped that if they could not agree in principle they might at least recognize the reasonableness of compensation for some of the properties. He said it was not so much a question of principle as of practical settlement.

Dr. Koo asked if he was to understand that the second, third, and fourth points were accepted by the Japanese delegation.

Mr. Hanihara said he was not quite ready to accept them, because he could not clearly understand Dr. Koo's points. He wondered, for instance, if the proceeds of the public utilities and works were going to be used solely for the interest of the public. In other words, he wanted to know if the taxes levied on the waterworks, for instance, would be solely devoted to the use of the municipality, or would be spent for other purposes. He thought it was most important that the interest of the public should be well taken care of.

Dr. Koo observed that he thought the Chinese Government could give a general assurance in the sense that the municipal government of Tsingtao would take into consideration the interests of the foreign community in Tsingtao in its administration of the public works and utilities.

Mr. Hanihara said that, unfortunately, he could not agree to the counterproposition of the Chinese delegation.

Dr. Koo said that the difficulty was only on the first point, and that if his Japanese friends did not insist on that point, then the Chinese delegation would be prepared to accept the second point.

Mr. Hanihara said that if the Chinese delegation did agree to compensation for some of the public properties, even if they did not recognize the principle of compensation, he thought he would be able to entertain the views of the Chinese delegation.

Dr. Koo asked how many public buildings, for instance, there were in Tsingtao.

Mr. Hanihara said he did not possess even the approximate figures, and that it was his idea to have the valuation of the public properties made by commissioners on the spot.

Dr. Koo said that it was not because he was in any way ready to accept the principle of compensation that he asked for the figures.

Mr. Hanihara said the Japanese Government had no intention to ask any unreasonable compensation.

Dr. Sze asked what public properties Mr. Hanihara had in mind for compensation.

Mr. Hanihara said that that was the trouble; he had instructions to ask for compensation, but did not know exactly what properties should be compensated for.

Dr. Sze said that it was like signing a blank check for the Chinese delegation to agree to compensation without knowing what properties were to be compensated for.

Mr. Hanihara said that that could be ascertained only on the spot, and that commissioners could easily find out about that.

Dr. Sze said that he would suggest, in order to facilitate the discussion, to adjourn until the Japanese delegation referred to their home Government and obtained detailed information about the public properties at Tsingtao.

Mr. Hanihara asked if his Chinese friends had any information about those properties.

Dr. Sze said that he had none.

Mr. Hanihara remarked that if the Chinese delegation did not have any information themselves, it would be impossible for them to discuss the matter, even if detailed information were forthcoming from Tokyo.

PRESS COMMUNIQUÉ.

The press communiqué was agreed upon in the annexed form (Annex I).

At 5.30 p. m. the meeting adjourned until 3.15 p. m. Wednesday, December 7.

WASHINGTON, D. C., *December 6, 1921.*

SJC-4.]

ANNEX I.

DECEMBER 6, 1921.

[For the press.]

The Chinese and Japanese delegates met at 3 p. m. in the Pan American Union Building, December 6, 1921, and discussed the question of restoration to China of the public properties in the territory of Kiaochow.

The meeting adjourned to meet at 3.15 p. m. to-morrow.

FIFTH MEETING.

The fifth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3.15 o'clock in the afternoon of Wednesday, December 7, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Prince I. Tokugawa, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. B. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. W. M. Lampson, M. V. O.

PUBLIC PROPERTY.

Dr. Sze said that the views of the Chinese delegation on the question of public properties had been given the day before, and that they would welcome any further observation on the part of Mr. Hanihara.

Mr. Hanihara said that there was not much to be added, but that he would try to make the position of the Japanese delegation a little clearer. In the first place, he wanted to emphasize once more his belief that the Japanese were entitled to compensation in handing to China the public properties which were acquired or built by the Germans during their régime; that the position of Japan was quite tenable as a matter of both law and justice. It seemed the Chinese delegation, in claiming the surrender of the properties without compensation, had failed to appreciate the distinction between the territory of Kiaochow and the public properties upon that territory. Japan proposed to restore the territory to China, but the ownership of the public properties was upon entirely different footing. Those buildings and works erected by the Germans had never been in the possession of China; in other words, China had at no time possessed any title to them. The disposition of these properties had nothing to do with the question of the territorial right to Kiaochow. Japan could, for instance, obtain a property in the District of Columbia without the sovereignty of the United States being in any way affected. All those public properties in Tsingtao had been ceded to Japan and Japan now proposed to transfer, not to restore, the essential part of these properties to China, only asking for some of them proper compensation. That was the position of the Japanese Government, but, in the interest of speedy settlement of the Shantung question, the Japanese delegation were prepared to give further consideration upon this matter of compensation, should the Chinese delegation be disposed to meet him halfway. He was only referring to the public properties under (b) as given in the Japanese proposition. Further, in making that offer, he must not be understood as abandoning the position taken by Japan as to the propriety of the demand of compensation.

Dr. Sze wondered if Mr. Hanihara could not extend that offer to the property under (c), since he said that he was ready to meet the Chinese delegation halfway. As to Mr. Hanihara's remark that China had made no contribution whatever in respect to the public properties in Shantung, he would mention the fact that 20 per cent of the whole customs revenue at Tsingtao had been yearly contributed to the Japanese Government of Tsingtao.

Mr. Hanihara said that he didn't know anything about the public properties having in part been built or maintained with that contribution. What he had just pointed out was merely the fact that China didn't have any ownership or claim upon them.

Dr. Sze asked Mr. Hanihara for more light upon that group of properties which it was intended should remain in the hands of the Japanese at Tsingtao. He thought it was desirable to have these properties specified, so that the misgivings of the Chinese people might be dispelled. He wanted, for instance, to know exactly how many buildings it was proposed should be retained for the use of

the Japanese consulate. He thought the words "a few" were rather dangerous.

Mr. Hanihara said that that belonged to minor details which could easily be decided if commissioners of Japan and China met and discussed the matter on the spot. He would assure them, however, that Japan would only ask for what everybody would agree as reasonable.

Dr. Sze asked if the Japanese delegates would say three buildings—one for the consul's residence, one for the office, and one for the consular court.

Mr. Hanihara said he couldn't commit himself without knowing the actual needs of the case.

Dr. Sze insisted upon having the number of buildings for consular use specified.

Mr. Debuchi said that it was merely a matter of common sense; if commissioners from the two countries met together, these minor points could easily be decided. If Japan were to ask for a hundred buildings for consular use, why, everybody would laugh.

Dr. Sze said he thought that the public market was in charge of the municipality and that it might be better to transfer it to the Chinese municipality if only in the interests of public sanitation.

Mr. Hanihara said that he didn't know what the case was with the public market.

Dr. Sze said that if it had always been in the hands of the resident Japanese they could have it, but if it was under municipal administration there would seem no reason why it should be retained by the Japanese association.

Dr. Koo said that he was glad to hear that his Japanese colleagues would be prepared to give further consideration to the question of compensation for the properties coming under (b). He would ask more light thrown upon that proposal.

Mr. Hanihara said that his meaning was that if his Chinese friends agreed to compensation he would meet them halfway in the practical settlement. Of course, that didn't mean that the Japanese delegation were giving up their position as to the principle.

Dr. Koo said that if the Japanese delegation didn't insist upon compensation as to properties under (b) the Chinese delegation would be prepared to go on to the consideration of properties under (c).

Mr. Hanihara said that the solution of the first point depended upon that of the second point, that all the individual questions must be taken as a whole. The concessions he intimated as to (b) depended upon how much the Chinese delegation was going to concede as to (c).

Dr. Sze said he was afraid the sort of bargaining Mr. Hanihara's remarks would seem to suggest would give an unfortunate impression upon outsiders, especially the Chinese people.

Mr. Hanihara said that it was not a question of bargaining; he thought it was impossible to decide only upon one point without reference to another.

Dr. Koo observed that if the settlement of each item depended upon that of all other items the progress of discussion would be made impossible. For instance, they had come to a complete agreement the other day upon the question of customs. He hoped that it

was not meant that that agreement was subject to modification in the light of later discussions of other items. They had to decide on each item as it came up with, of course, the understanding that the solution of each item had to go with the whole solution of the Shantung question. So he would be glad to learn what Mr. Hanihara's definite idea was as to (b) before going over to (c).

Mr. Hanihara remarked that to be perfectly frank he was going beyond his authority in promising concessions as to (b). He must ask instructions from Tokyo to authorize him to yield on this in order that other matters might be settled in such and such a way.

Dr. Sze said that if the Japanese delegation took that attitude in the discussion of all of the questions that would make the Chinese delegates hesitate to come here.

Mr. Hanihara thought that the Japanese delegation might be given credit for their sincerity.

Dr. Sze said he never doubted their sincerity.

Dr. Koo asked if he was to understand that as to the question of compensation for properties under (b) the Japanese delegation couldn't come to any agreement without specific authorization from their Government.

Mr. Hanihara said he had not been authorized to give up the demand for (b). He would, however, frankly tell his Chinese friends that he had reasonable hope for getting that authorization.

Dr. Koo said that that would make the progress of discussion difficult, because the Chinese delegation could not try to meet the point of view of his Japanese friends in regard to (c) so long as there was uncertainty as to (b).

Mr. Hanihara asked if the question of compensation for (b) could not be left for later discussion and properties under (c) taken up.

Dr. Sze suggested that (b) should be taken up after they had heard from Mr. Hanihara on (c).

Mr. Hanihara said his position as to (c) was the same as the day before.

Dr. Koo said that in the first place he felt in duty bound to make it clear that the principle of compensation was not acceptable to the Chinese delegation, nevertheless, to facilitate progress, the Chinese delegation would undertake that a fair and proper proportion of the moneys spent by Japan during her occupation should be refunded to the Japanese Government, that proportion to be determined upon the general principle of depreciation and continuing value. In this connection the annual contribution of 20 per cent of the total customs revenue at Tsingtao which had been made to the Japanese authorities should be taken into consideration. Further, he felt it necessary that it should be made clear that in making this arrangement the Chinese delegation didn't in any way acquiesce in the principle of compensation. He hoped that this fair and just proposition would be acceptable to his Japanese colleagues.

Mr. Hanihara said he thought it was only fair that Japan should claim compensation. It was not simply a question of money, so far as the Japanese Government was concerned.

Dr. Koo said that the main reason why he could not agree to the principle of compensation was the peculiar status of the Shantung question. The Chinese views did not coincide with the Japanese views as to the fundamentals of the matter.

Mr. Hanihara stated that he had been trying to make it clear that the question of the restitution of Kiaochow was an entirely different one from the transference of the public property. Territorial rights differed from the ownership of property established upon it.

Dr. Koo said that he could not accept the point of view of Mr. Hanihara. As he had said yesterday, according to the principles of private law, a building established upon another man's land had to be handed over to the landowner without compensation, but he was not going into such an academic question. He thought that what Japan demanded was the refunding of moneys expended on the public properties in Kiaochow. If the Japanese delegation were prepared to give up their claim in relation to the buildings and works under (b), then the Chinese delegation would propose to refund a fair and equitable proportion of the moneys spent by the Japanese Government upon properties under (c). He wanted to impress upon the Japanese delegation the sincere desire of the Chinese delegation to facilitate the progress of the conversations by meeting them halfway. He thought that by the above proposal some of the substance of what Japan was after would be obtained.

Mr. Hanihara emphasized the necessity of making a distinction between territorial rights and property ownership.

Dr. Koo said he was afraid that the spirit of the Chinese proposition was not fully appreciated.

Dr. Sze said that the Chinese delegation had been waiving point after point.

Mr. Hanihara said that the Japanese delegation had made a very generous offer which his Chinese friends did not seem to appreciate. He was prepared, without compromising the Japanese position as to principle, to approach item (c) from the practical point of view. He wondered whether the Chinese delegation would consider the proposition of compensation in relation to that item.

Dr. Koo said that their proposal was to refund a fair and equitable proportion of what had been expended by the Japanese Government.

Mr. Hanihara said that he would assure the Chinese delegation that, in order to make a fair valuation, they would appoint a commission to look into the matter. Japan was not going to ask anything unreasonable.

Dr. Sze observed that the Japanese budget for Shantung administration showed in 1917 a surplus revenue of 1,175,000 yen, and in 1919, 6,888,000 yen. It would be noticed that Japan had obtained considerable revenue from the public works in Tsingtao. He supposed that that was enough compensation.

Mr. Hanihara remarked that Japan had been spending much more than she had acquired. He had some figures on that point.

Dr. Koo said that the only difference now between the proposals of Japan and China consisted in using the words "refunding" or "compensation." In substance, they were not at variance.

Mr. Hanihara said that he was unable to agree to the Chinese proposition as presented. He could not agree to the contention that the principle of compensation was inapplicable to the properties in Shantung. Further, the Chinese reference to the 20 per cent contribution out of the customs revenue to the government of Tsingtao had nothing to do with the value or ownership of property situated there.

Dr. Koo said naturally he would have thought that such amount would have been placed in the treasury of the local government, and the construction or improvement of public properties had been paid out of the same treasury. It was because that point was borne in mind that mention was made of the 20 per cent contribution. He assured Mr. Hanihara that there was no hidden meaning in the formula he had proposed.

Mr. Hanihara observed that he could not see any connection between the customs contribution and the ownership of property.

Dr. Sze remarked that the Chinese delegation had been making concessions with a view to meeting the Japanese desires.

Mr. Hanihara said that if the two points just referred to in the Chinese proposition were omitted, he would be able to accept it.

Dr. Sze complained that the Japanese delegation had been cutting down the Chinese proposition portion after portion.

Mr. Debuchi said that the beautiful port of Tsingtao had not been built with the 20 per cent contribution of customs revenue made by China. Germany had spent something like 10,000,000 marks yearly in its construction. Japan had been spending a considerable amount of money in maintaining and improving the port. The roads and buildings were ascribable either to the German or Japanese money and enterprise.

Dr. Sze stated that perhaps a monument ought to be erected on which it might be inscribed that the city owed much to Germany and Japan.

Mr. Debuchi said that they had to base their conversation on common sense. They had to come to an amicable and satisfactory settlement. He wished and hoped that his sentiments would be reciprocated.

Sir John Jordan and Mr. MacMurray suggested that item (c) might be first disposed of, leaving out of consideration the question of principle, because both delegations had agreed to base their discussions on actual facts.

Mr. Hanihara said that as to item (b) he had to refer to the Japanese Government for instructions.

Dr. Sze signified his agreement to the suggestion of Sir John Jordan and Mr. MacMurray.

Mr. MacMurray said that he understood that Mr. Hanihara desired to refer to the Japanese Government as to item (b), and that as to item (c) he was prepared to wave the principle.

Mr. Hanihara said that he could not agree to the Chinese proposition which involved the waiving of the principle of compensation on the part of the Japanese Government. He preferred not to prejudice the principle, but to take facts as they stood. As to point (b), he would refer to his home Government.

Dr. Koo asked whether Mr. Hanihara was going to recommend the Japanese Government to drop their claim as to item (b).

Mr. Hanihara replied in the affirmative.

Dr. Sze stated that if the instructions should say "No," then the Chinese offer as to item (c) would be dropped.

At this point Dr. Koo handed to Mr. Hanihara his draft formula, which was as follows:

"It is agreed that with reference to property acquired or buildings or works constructed by Japan during the period of Japanese

occupation, a fair and equitable proportion of the moneys actually expended by Japan on such properties, buildings, or works shall be refunded, provided that consideration be given to the principle of depreciation and continuing value."

Mr. Hanihara said that he generally agreed with the formula. However, he would like to have it made clear that the expenditure involved in the improvements made upon such properties, building, or works should also be refunded.

Dr. Sze said that it was a new proposition.

Mr. Hanihara said that he did not think that that was anything new. Suppose there was a house acquired during the German occupation that was in a dilapidated and uninhabitable condition when Japan took over the leased territory. Japan spent some money to improve the building and made it habitable. It was simply natural that consideration should be given to that improvement.

Dr. Sze said that he thought it was petty argument. If one made improvements to a house he would have the enjoyment of them, which would be sufficient compensation.

Mr. Hanihara said that he was not a lawyer and he did not want to enter into legal details, but he thought his claim for the refunding of expenditures in relation to improvements was in reason.

Dr. Koo said that fair and adequate adjustment had been offered and thought that that was sufficient. He was basing his argument on common sense. He suggested that the matter of improvements could be left to the commissioners to be appointed by the two Governments. In order to facilitate their deliberations, the Chinese delegation would accept the Japanese position on the understanding that (c) and (b) were linked together and that on the latter point the Japanese delegation were going to ask for instruction.

Mr. Hanihara then desired to proceed to the discussion of paragraphs 2, 3, and 4 of his proposal.

Dr. Koo said that they were going on to paragraph 2. As he had said yesterday, the Chinese delegation were ready to consider the handing over to Japan of certain buildings, such as were only for the use of the Japanese community; i. e., (1) public schools, (2) cemeteries, and (3) shrines. As to the crematorium, public market, and the like, he was not sure whether they had been built by the Japanese. He thought that that was more for general benefit than for the benefit of the Japanese residents alone. However, he was not sure. The Chinese delegation had no objection to exclude the three classes above enumerated. He did not know about the cemeteries, market places, etc., but he thought that they would best be left to the commissioners.

Mr. Hanihara said there were also commercial museums, and some other properties, which the Japanese desired to retain, though he did not know much about the details, which, however, could easily be ascertained on the spot by the commissioners.

Dr. Koo said that things that could be used for general benefit should be left to the municipality and that those for the benefit of the Japanese residents more exclusively should be left in their hands and the details could be worked out by a commission.

Mr. Hanihara signified his agreement.

Dr. Koo said that it might be advisable to establish an impartial board of appraisal or some such arrangement by which the interpretation of words such as "a few" in the phrase "a few buildings" could be decided.

Mr. Hanihara said that a joint commission would answer the purpose.

It was decided that such public properties as were used for the benefit of the general public should be handed over to the municipal government of Kiaochow, and those for the benefit of the Japanese residents more exclusively be left in their hands, and that details be worked out on the spot by a joint commission.

Dr. Koo stated that paragraph 3 was almost agreed upon yesterday. The Chinese delegation were prepared to give a general assurance that as to those public works which were to be handed over to the municipal government, the latter would see to their satisfactory maintenance and administration.

Mr. Hanihara said that what Japan desired was that the voice of foreign communities in Tsingtao should in some way be represented in the management of those works of public utility. It was only reasonable that the residents whose interests were closely bound up with their good management should have some voice as to the manner in which those works should be taken care of. In other words, foreign communities should be represented on the municipal board or some such organ in the administration of the port.

Dr. Koo said that the two delegations were not in a position to settle between them the scheme of the municipal government of Tsingtao.

Mr. Hanihara said that the time was getting late, and inasmuch as the question had close connection with the opening of the port of Tsingtao, the two questions might be discussed together to-morrow.

Dr. Sze said that the Chinese delegation were being pressed by their people to take up the question of the railway as soon as possible. He desired the assurance of the Japanese delegation that that question would be discussed not later than Saturday.

Mr. Hanihara replied that as soon as the questions on the agenda were dealt with, he would be prepared to take up the question of the railway.

The press communiqué was agreed upon in the annexed form (Annex I).

The meeting adjourned at 5.30 p. m. until 3.15 p. m. Thursday afternoon, December 8.

WASHINGTON, D. C., *December 7, 1921.*

SJC-5.1

ANNEX I.

DECEMBER 7, 1921.

[For the press.]

The Chinese and Japanese delegations met again this afternoon at 3.15 at the Pan American Union Building and discussed the question of transferring to China of the public properties in Tsingtao. Substantial progress was made, and the discussions will be continued at the next meeting, at 3.15 to-morrow afternoon.

SIXTH MEETING.

The sixth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3.30 o'clock in the afternoon of Thursday, December 8, 1921.

PRESENT.

China.—Dr. Sao-Ko Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Prince I. Tokugawa, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori, Mr. E. Kishida.

Also present as observers:

The United States of America.—Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

PUBLIC PROPERTY.

Dr. Sze wondered if under item (b) in the Japanese proposition were not to be included such public properties as wharves and docks, warehouses, and so on.

Mr. Hanihara said that it was the wish of the Japanese delegation to discuss those in connection with the Shantung Railway, inasmuch as they had such close connection with the latter.

Dr. Sze wondered if the reclaimed land was to be included in the public properties so far discussed.

Mr. Hanihara said that it was to come under the head of vested interests, which were to be discussed later on. He admitted the wording "administrative properties" might not be accurate. It meant public properties owned by the Government and used for administrative purposes. He pointed out that it was true that the properties coming under (3) and (4) in the Japanese proposal were somewhat different, these being rather more for the use of the community at large; but they were mentioned along with the others, so that the question of compensation for them might be discussed en bloc. Wharves, docks, and warehouses were excluded in view of their close connection with, and their almost exclusive use for, the Shantung Railway.

Dr. Sze said that he understood there were wharves for the railway and wharves for the steamships.

Mr. Hanihara said that it was proposed to discuss only such wharves as were used for the railway.

Dr. Sze said that, according to his information, Wharf No. 3 at Tsingtao had been originally used for steamships, and that the Japanese had built extensions upon it and turned it for the use of the railway.

Mr. Hanihara said that it was wharves which came at the termini of the railway that were now in question.

Dr. Sze observed that No. 3 wharf had originally been in the charge of the municipality. He would like to point out the great importance of these wharves to traders. He felt that the wharves should be taken care of by the customs commissioner, as at Shanghai, or by the municipality.

Mr. Hanihara said that the matter could more properly be taken up in connection with the railway.

Dr. Sze asked if all the wharves at Tsingtao did not come under item (b). He was solicitous about these public works mainly in the general interest of trade.

Mr. Hanihara said that there was no desire on Japan's part to infringe upon the principle of equal opportunity at Tsingtao; that she did not desire any discrimination in favor of the Japanese, however these properties might be finally disposed of.

Dr. Sze asked if the lands reclaimed by the Japanese were to be turned over to the municipal government.

Mr. Hanihara said that landed properties were included in both (b) and (c), but he wanted to point out in connection with the question of their disposition that there were certain land lots which were leased by the Japanese authorities to private individuals, and upon which were built houses, manufactories, etc. It was desired that the lessee should be allowed either to have the lease continued or to have the land sold to him. All other landed properties were to be disposed of according to the principles agreed upon the day before.

MACHINERY.

Dr. Sze asked if it was intended that the machinery in the dock-yards was to be taken by the Japanese.

Mr. Hanihara said that he did not know anything about those matters of detail.

Dr. Sze suggested making a list of what to give up and what to retain.

Mr. Hanihara said it was impossible to make any such inventory here.

Dr. Sze admitted that more knowledge and information might be available for a local settlement of the matter, but it was impossible for the Chinese delegation to go on with the negotiation without knowing what they were negotiating about.

Mr. Hanihara again suggested the appointment of commissioners for a detailed settlement.

SALT FIELDS.

Dr. Sze asked how it was with the salt fields.

Mr. Hanihara said that Japan wanted to have the interests of the Japanese in the salt industry respected. Those interests were among the vested rights.

Dr. Sze said that this question of salt was a serious one. Salt was placed under Government monopoly and the revenue from the salt monopoly formed the security for various foreign loans, in some of which Japanese interests were involved. If only for the security of those loans, China wanted the salt industry reserved for her. As for the export of salt produced in Tsingtao to Japan, suitable arrangements could be made, but the industry itself could not be left in the hands of any foreign nationals. He did not know whether the salt industry was at present in the hands of private individuals or of the municipality.

Mr. Hanihara said that there were three private companies engaged in the industry, and that while he had some observation to make on that subject he wondered if it would not be better to come back to the question of public properties.

Dr. Sze said that the classification of public properties was not quite clear to him and that he felt as though he were discussing in darkness.

AGREEMENTS CONFIRMED.

Here the two decisions made yesterday were submitted by Mr. Hanihara for confirmation. The first, which was about the class (c) in the Japanese proposition, was read and confirmed as follows:

Agreement 1.—It is agreed that with reference to properties acquired or buildings or works constructed by Japan during the period of Japanese occupation a fair and equitable proportion of the moneys actually expended by Japan on such properties, buildings, or works shall be refunded, provided that consideration be given to the principle of depreciation and continuing value.

The second decision was about the class of properties which it was proposed should remain in the hands of the Japanese—among them such public properties as schools, shrines, and cemeteries presented no difficulty for agreement. It was about other objects among this class, such as public markets, museums, and the like, that the following formula was adopted in their practical disposition:

Agreement 2.—It is agreed that such public properties as are required for the benefit of the general public should be handed over to the municipal government of Tsingtao and those required for the Japanese consulate to be established there, as well as those required more especially for the benefit of the Japanese community, such as schools, shrines, cemeteries, and other properties of similar nature should be left in the hands of the Japanese, and that details be worked out on the spot.

Mr. Hanihara said he desired to make it clear that the properties to be retained by Japan might be as well in class (b) as in class (c). The houses for consular use, for instance, might be taken from among class (b).

Dr. Koo said he understood.

DOCKS AND WHARVES TO BE DISCUSSED LATER.

Mr. Hanihara suggested that paragraph 3 of the Japanese proposition might now be taken up. As stated before, public works, such as roads, waterworks, parks, drainage, sanitary equipment, etc., would be handed over to China. It was, however, desired that suitable arrangement should be first made to insure their satisfactory maintenance and management. Since it seemed to him that the question of such arrangement might more appropriately be taken up with the question of the opening of ports he would suggest to discuss them along with the latter question.

Dr. Koo said that, as pointed out by Dr. Sze, docks and warehouses might more properly be included in paragraph 7 of the Japanese note of September 7 than in paragraph 3, as was now proposed by the Japanese delegation, but he would not insist upon that, so that the discussion might be facilitated.

Mr. Hanihara said he thought the question of wharves and warehouses could not usefully be discussed without reference to the question of the railway. At least it was convenient to deal with them in connection with the railway, of which they formed the terminus.

Dr. Koo said that they could be used quite independently of the railway and managed either by the municipality or by the customs authorities. They would seem, in the nature of things, to fall under public properties.

Mr. Hanihara said that they might well be called public properties; they were run by the Japanese Government, at any rate. At the same time they were business establishments and were, so to speak, an inseparable part of the whole railway system. He was not speaking of other wharves not connected with the railway. Whatever disposition might be made of the wharves necessarily depended upon the disposition of the railway. It was by far the best that they should be treated together.

Dr. Koo said that he didn't quite agree with that viewpoint, but in the interest of progress he would consent to go over to the discussion of paragraph 3 of the Japanese proposition.

Mr. Hanihara said that what the Japanese delegation had in mind about these public works was that in opening Tsingtao the Chinese Government would have to make regulations for its administration, and that should those regulations and measures which the Chinese Government would adopt act prejudicially to the interest of the Japanese or other nationals protest would naturally be forthcoming. It was to avoid such eventuality that definite arrangement was desired, not that the Japanese delegation entertained any apprehension that the Chinese Government might neglect the interests of the foreign community, but it seemed to him advisable to have a previous arrangement which would prove satisfactory both to China and to the foreign community. He wondered if the Chinese delegation had any idea of what particular sort of administration was going to be instituted at Tsingtao.

Dr. Koo said that he appreciated the solicitude of his Japanese colleagues for the satisfactory administration of the locality and the port. He had no idea of the plan of the Tsingtao municipality which would be set up by the Chinese Government. He could, however, give some idea of the spirit in which the Chinese Government would enter into the work of establishing the local government of Tsingtao. He would read a passage from the Chinese note of October 5 addressed to the Japanese Government in which that spirit was clearly set forth. The passage referred to was as follows:

"As to the regulations governing the opening of such places, China will undoubtedly bear in mind the object of affording facilities in international trade and formulate them according to established precedence of self-opened ports and seas. Therefore there is no necessity in this matter for any previous negotiation."

In other words, in formulating the plan of administration for this important port the Chinese Government would be guided by the policy of promoting the general interest of the foreign community as well as of the Chinese. The work might perhaps be left to the Chinese Government. There were, of course, a great number of foreigners resident in Tsingtao, of whom the overwhelming majority were Japanese. Any injustice or misgovernment on the part of the Chinese local authorities would not escape their judgment.

and criticism. It was desired that the earnest and genuine intention of the Chinese Government to protect the interests of foreign trade at Tsingtao should be recognized.

Mr. Hanihara said he understood, but at the same time it was desirable that some sort of assurance be given that the foreign interests should be adequately represented in the municipal administration. Not that it was feared that the Chinese Government might deliberately act against the interests of the Japanese, but, as was the case at other open ports, some sort of a municipal council might properly be set up at which foreign residents might be represented. At Hankow and Tientsin during the war the Chinese Government had assumed the administration of the former German and Austrian settlements, but he understood the administration of these settlements was much as it had been under the Germans and the Austrians. It was admitted by the Chinese delegation that there should be some sort of representation for the foreign interests at Tsingtao. It would be desirable for the common interest of all parties concerned to arrange in advance what sort of government should be established there.

Dr. Koo observed that when he said the Chinese Government would give every consideration to the interests of the foreign community he did not exclude the idea of some representation for foreign interests. Only it was difficult to determine what formula should be adopted for the municipal administration, or in what manner the representation of foreign interests might be provided for. It might be added that at an early stage of the administration it would be impracticable, in view of the state of political development in China, to give franchise, even to the Chinese. It was altogether impossible for the Chinese delegation to commit themselves in this regard, but he would give a general assurance that everything consistent with the administrative integrity of China would be done for the welfare and interest of the foreign community as well as the Chinese.

Mr. Hanihara wondered if the Chinese delegation could not agree to some such formula:

"The Chinese Government, in formulating the municipal government, should take into consideration the interests of the foreign community and see that some organ be formed upon which foreign interests might be properly represented."

It would be expedient that the public works mentioned under paragraph 3 should be handed over to such an organ as proposed above. That body would undertake the control, if not the management, of such public works.

Dr. Koo said he felt there was not much difference of views in substance. Only, the Chinese delegation could not say anything about the form of the local government because it might be dangerous to try to be specific about that. What he understood was that the desire of the Japanese delegation was, principally, that the foreign community should have some voice in the protection of foreign interests.

Mr. Hanihara said that the foreign community should have voice not only in the protection of foreign interests, but also in regard to the proper maintenance and management of those public works.

Dr. Koo wondered if the whole idea could not be expressed in some such way:

"The Japanese delegation expressed the desire that the Chinese Government, in formulating the plan for the local administration at Tsingtao, should give full consideration to the desirability that foreign interests at Tsingtao should have some voice in the administration."

Mr. Hanihara said that the question was more especially of the public utilities. It was desired that these should be devoted solely to the interest of the community, and that, in their management and maintenance, an arrangement should be made whereby the foreign community should be allowed to have some voice.

Dr. Koo said he appreciated the wish of the Japanese Government in this matter, and he thought that that wish could be met by adopting some such formula:

"In the maintenance and management of public works mentioned under paragraph 3 of the Japanese proposition, foreign interests in Tsingtao should have fair representation."

Mr. Hanihara said that there was no question of any exclusive rights for the Japanese only. In the opening of the Tsingtao port and other places in Shantung, it was expected that the Chinese Government would make regulations for their opening. Japan desired that in those regulations it should be provided that the interests of the foreign community should be represented in the administration of municipal affairs. It was desirable that a municipal organ, upon which the foreign community would be represented, should control and supervise the public works which Japan now proposed to hand over to China.

Dr. Koo said that it was agreed that in the management of public works foreign interests should have fair representation. As to the form of government, it was difficult to discuss it, as they had as yet no definite plan for the municipal administration, but assurance could be given that the Chinese Government, in formulating the Tsingtao municipality, would give full consideration to the interests of the foreign community.

Mr. Hanihara said that he felt that they were very near an agreement. He would present a formula at the next meeting.

PRESS COMMUNIQUÉ.

It was decided that the press communiqué for to-day be issued in the annexed form (Annex I).

An adjournment was taken at 5.30 p. m., the subsequent meetings to take place to-morrow at 11 a. m. and at 3 p. m.

WASHINGTON, D. C., *December 8, 1921.*

ANNEX I.

SJC-6.]

DECEMBER 8, 1921.

[For the press.]

The Chinese and Japanese delegations met again this afternoon at 3.15 at the Pan American Union Building and discussed the question of Shantung. The discussion will be continued at the subsequent meetings at 11 a. m. and 3 p. m. to-morrow.

SEVENTH MEETING.

The seventh meeting, held in the governing board room, the Pan American Union Building, Washington, D. C., at 11 o'clock in the morning of Friday, December 9, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Prince I. Tokugawa, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori, Mr. E. Kishida.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

PUBLIC PROPERTY.

Mr. Hanihara said that he tried to incorporate his ideas in the formula which had been presented by Dr. Koo the day before. He did not care much about the wording, but he desired that the substance should be accepted. His formula read as follows:

“In handing over to the Chinese Government public works in Tsingtao, such as roads, waterworks, parks, drainage, sanitary equipment, etc., it is agreed that, in view of the close bearing they have upon the interests and welfare of the general public, representatives of the foreign community in Tsingtao should be called on to cooperate in the maintenance and management of such public works.”

Dr. Koo wondered whether he could accept that formula. The underlying idea of the formula he had proposed yesterday was that the foreign community in Tsingtao should have fair representation, but he could not accede to the Japanese proposal, which involved the commitment on the part of the Chinese Government as to the form of the municipal government to be set up in Tsingtao.

Mr. Hanihara observed that the expression “fair representation” might mean anything. His main idea in proposing the above formula was to obtain some assurance as to the manner in which the voice of the foreign community should be equitably represented.

Dr. Koo suggested that, with a view to meeting Japan's wishes, the formula might take the following form:

“The Chinese delegation take note of the desire of the Japanese delegation that in the management and maintenance of the public works in Tsingtao such as roads, etc., the foreign community at Tsingtao should have fair representation.”

The idea prompting his proposal was not to object to any such representation. Only, he could not bind down the Chinese Government to any particular form of representation. He thought the

important point was that there should be fair representation of the voice of the foreign community.

Mr. Hanihara said that what Japan was concerned with was a practical assurance. What he desired was that the form of the municipal government should be such as to offer that assurance.

Dr. Koo said that that was the intention underlying the formula he had proposed. To the assurance as such he had no objection, but as to the question of the form of the municipal government he had to take into consideration the public sentiments of China. He did not desire to compromise the principle of administrative integrity. He desired to meet the wishes of the Japanese delegation in substance, and therefore he wished that the Japanese delegation would accede to his proposal in the matter of form.

Mr. Hanihara said that, in connection with the opening of the port of Tsingtao, it was anticipated that a certain form of government would be adopted by China. Whatever government there might be established, it was desired that the foreign community should be permitted to take an equitable part in the management of the public works in question. He did not care in what form that should be effected.

Dr. Koo explained that his formula would give substance to Japan and form to China.

Mr. Hanihara said that if an assurance could be given that the formula was drawn up in that sense, he could accept.

Dr. Koo stated that that was the intention of the Chinese delegation, and that the Japanese delegation could take the agreement as embodying the assurance that the foreign community in Tsingtao would be called on to participate in the maintenance and management of the works in question in a fair and equitable manner.

An agreement was reached on the understanding that the Chinese delegation gave assurance that actual participation would be permitted to the representatives of the foreign community in the management and maintenance of the public works in question:

"The Chinese delegation give an assurance to the Japanese delegation that in the management and maintenance of the public works in Tsingtao, such as roads, waterworks, parks, drainage, sanitary equipment, etc., handed over to the Chinese Government by the Japanese Government, the foreign community in Tsingtao shall have fair representation."

Dr. Sze remarked that the electric and telephone undertakings under paragraph 4 were under municipal government during the German administration. He thought, therefore, that these undertakings should also be under the municipality in the future.

Mr. Hanihara said that they were at present under the Japanese Governmental control, as they used to be during the German régime, but in point of actual fact the subscribers to the electric and telephone undertakings were in a large measure Japanese residents. Further, the Japanese had business interests in the stockyard. These undertakings were in their nature better managed as private enterprises rather than as public works. The desire of Japan was nothing more than to have some share in such private enterprises. Neither did he propose that the Japanese should have any special privilege, but only that interest should be shared by foreigners and the Chinese residents. He thought it best to have those enterprises turned into

Chinese corporations, in which foreign residents, including the Japanese, might have have a share.

Dr. Sze remarked that when the Tsingtao municipal government was set up, they would have to meet expenditures and naturally to obtain revenue. It was most desirable that taxation should be lightened as far as possible, and he was sure that the undertakings in question would be a source of revenue which would make for lightening the burden of taxation. He thought it was only fair that the municipality should profit by conducting such enterprises. Therefore, the public works under paragraph 4 would best be disposed of in the same manner as those under paragraph 3. In the long run that method would prove the most beneficial to the Japanese residents as well as the residents of other nationalities in Tsingtao, because that would mean less taxation to be paid.

Mr. Hanihara thought that some arrangement might be made whereby to tax the corporations themselves or to let them pay a certain amount of royalty. That would meet the requirements of the municipal government which Dr. Sze had in mind. To take the example of the city of Tokyo, the municipality gave license to certain enterprises in the nature of public utilities, of which a certain portion of the profit was to be paid into the treasury of the municipality. Such undertakings would yield profit, and it was desired that the Japanese in Tsingtao should be permitted to participate in such profitable business to the same degree as the Chinese.

Dr. Sze inquired to what degree the Japanese were participating in those undertakings at present.

Mr. Hanihara replied that all of them were under Government control. But as to the telephone enterprise, there were at present 940 subscribers, of which 891 were Japanese. As to the electric-light enterprise, he had no statistics, but the situation was more or less the same. In consideration of these actual facts, Japan wanted to have some proper share in the business.

Dr. Koo said that he desired to know, merely for his information, how these Japanese had come to have such share in it.

Mr. Hanihara said that they had no share at present, but he now proposed to have a corporation made in which the Japanese might hold some share if they wanted. He did not think that that was a very difficult proposition. He did not want to have a Japanese corporation established—only the privilege to own shares equally with the Chinese was desired.

Dr. Koo inquired whether these enterprises were German Government enterprises.

Mr. Hanihara replied in the affirmative, and said that a new arrangement was now proposed.

Dr. Koo stated that, of course, the suggestion to establish a Chinese corporation would be inviting to the Chinese people, but if the nature of the enterprises was taken into consideration, it would be thought better to leave them to the municipal government, as under the Japanese and the German administration.

Mr. Hanihara stated that under the German administration, practically everything belonged to the Government—wharves, godowns, etc. Such arrangement was natural, because Tsingtao was under Germany not only an ordinary commercial port but was more or

less a military port. Again, Japan's status in Tsingtao was only temporary and those German Government enterprises continued to be operated under similar management. But now the leased territory was to be returned to China and it was necessary to look after the interests of the Japanese residents there. It was not unreasonable at all, because Japan was asking no special advantage or privilege.

Dr. Koo inquired whether the management at present was found satisfactory.

Mr. Hanihara replied that it was fairly good. However, government business generally incurred more expense than private undertakings. That was the case more or less in every place, including this country. In order to secure efficient management, private management would be more suitable for undertakings of this description.

Dr. Koo declared that electric light and telephone services being of great importance to the people, he desired to have them placed under municipal control.

Mr. Hanihara said that the municipal government would have control or supervision over such undertakings. As a matter of fact, however, in many places in China such services were under private management. For instance, in Shanghai and Hangkow telephone service was privately undertaken.

Dr. Koo replied that that was not so in all cases. As to telephone service, there might be places where that was started as a private business, but the rule was Government management.

Mr. Hanihara assured Dr. Koo that he didn't desire to prejudice the general system adopted by the Chinese Government. However, in transferring the public properties in Tsingtao it was required that legitimate rights of the Japanese should be taken into consideration. It was not like the case of some new place absolutely under the control of the Chinese Government. Tsingtao had been under the control of Japan ever since that place was wrested from the grip of the Germans. Actual facts should be given recognition and the interests involved should be looked after.

Dr. Koo replied that the importance of these enterprises made it advisable to turn them over to the municipal authorities. There would be no ground of complaint on the part of any foreigner.

Mr. Hanihara said that if the corporations to be established were to be Japanese or other foreign corporations, it might be difficult to control for the Chinese municipal authorities, but it was proposed to form Chinese corporations.

Dr. Koo inquired whether the point Mr. Hanihara wished to make was to establish Chinese corporations and that the Japanese should have a share in the property.

Mr. Hanihara said that that was the case. It amounted to an arrangement by which the Japanese should be permitted to own shares. It could be so arranged, perhaps, that the Chinese and the Japanese should each own, say, 500 shares; or the Chinese, the Japanese, and other foreigners 300 shares each.

There was, of course, difficulty on both sides, but as far as Japan was concerned she was going to restore almost everything except these few enterprises which it was desired should be turned into private Chinese corporations with both Japanese and Chinese as shareholders. It was only fair that the Japanese at Tsingtao should be permitted to share in the profit of such a small number of enterprises.

Dr. Koo said he understood that the purpose of Mr. Hanihara's suggestion was to enable the Japanese and other foreigners to share in the profits of these undertakings. The Chinese delegation was disposed to accept the proposal in as far as the stockyard was concerned. But it was difficult for them to yield on the electric-light and telephone services. It was their idea to turn the electric-light service over to the municipal government. As for the telephone service, it should be left to the department of communications of the Chinese Government to dispose of it according to the policy they have adopted. It should be pointed out that the stockyard was by far the most profitable of all the enterprises enumerated. It was hoped that the Japanese delegation would see their way to accept this compromise.

Mr. Hanihara remarked that he would once more point to the fact that 90 per cent of the telephone subscribers at Tsingtao were Japanese. He did not fail to see the point made by Dr. Koo about the desirability of the telephone being left to the department of communications in the interests of a uniform system of communication in China. It must be made clear, at the same time, that Japan was not proposing to make an exception of the telephone service at Tsingtao. The business would be undertaken by a Chinese corporation which would be formed by Chinese and Japanese shareholders. He thought it was, on the whole, a very fair arrangement and that no opposition on the part of the Chinese people was to be expected. If, on the contrary, it was given up in a manner desired by the Chinese delegation, there would be great disappointment and strong opposition on the part of the Japanese people.

Dr. Koo said the stockyard was the most profitable of the three, so that it was offered by way of compromise. As to the other two enterprises, it was hoped his Japanese friends would agree to the desirability of their being managed either by the Chinese Government or by the local government. Public interest was so closely bound up with these enterprises.

Mr. Hanihara said he did not desire to go into the origin of the Japanese rights in regard to these enterprises. They were, at any rate, under the actual control of the Japanese authorities, and the Japanese community in Tsingtao was so vitally interested in them.

Dr. Koo said it was the rule in every kind of discussion to compromise—to give and to take.

Mr. Hanihara said that in their present proposition the Japanese delegation were offering everything. There was no question of give and take. He hoped his Chinese colleagues would find themselves able to come to an agreement.

Dr. Koo said that the Chinese delegation had been trying all along to accede to the Japanese views and that even here they offered to give in as to the most profitable of the enterprises mentioned in the Japanese proposition. In their very nature the other two should be left in the hands of the Chinese local government, for that seemed to him to be the best way to serve the general interest.

Mr. Hanihara said he would suggest that that enterprise should be transferred to the Chinese Government, with the understanding that the latter should permit Chinese corporations to be formed with Chinese and foreign nationals as shareholders, by which these enterprises would be managed.

Dr. Koo said he did not see much difference in that.

Mr. Hanihara said it was a question of form. The Chinese delegation had said that at every step they had met the Japanese offer. He appreciated that, but the Japanese offer was the maximum of what they could do. They had gone so far in their earnest desire to come to a solution.

Dr. Koo said he regretted the Japanese delegation could not accept the compromise. It was not a question of profits, but the peculiar nature of the enterprises that underlay the desire of the Chinese delegation.

Mr. Hanihara said that Japan could retain them if she wanted to, but instead she was giving them up entirely upon very reasonable conditions.

Dr. Koo said that when the Japanese people learned that the stockyard had been obtained they would be grateful to the Japanese delegation, because it was a very profitable enterprise.

Mr. Hanihara said that he could not agree to confine the proposition to the stockyard only. He would insist upon the preponderant interest of the Japanese in the other enterprises being taken into consideration also.

Dr. Koo suggested leaving the question as it was and going on to another item.

Mr. Hanihara said that he agreed on an understanding that they should come back to that later.

Dr. Koo said that he felt that the Japanese conditions in every case were intended as absolute and final. It was very difficult to make headway.

Mr. Hanihara said he desired to meet the Chinese viewpoint as far as possible; but as a matter of fact most of the Japanese propositions represented the minimum, about which there was no yielding much further.

Sir John Jordan asked Dr. Koo if the electric-light service had to be managed by the municipal government. He thought that it was different from the telephone service; that there was no fixed rule for the management of electric light.

Dr. Sze said it would never do to give to the municipality only things that would produce no benefit. The municipality needed a certain amount of revenue. If it did not have the benefit of public enterprises for its revenue that would mean so much the more tax for the community.

Mr. Hanihara said the municipal government could, of course, impose tax or royalty upon these enterprises, that would indirectly make the Japanese community contribute to the municipal revenue.

Dr. Koo said that the Chinese compromise had been offered and that he wanted now to hear the Japanese compromise.

Mr. Hanihara said that that had been stated in this way, that the enterprises in question should be turned over to the municipal government which should permit Chinese corporations to be organized by Japanese and Chinese shareholders. As for the telephone service, if unification of system was desired, arrangement could be made for its incorporation in the unified system at some future time. He understood that telephone was being undertaken by private corporations at many other places in China; for instance, at Shanghai and Hankow.

Dr. Sze said that at those places the telephone was there before the telephone system of the Chinese Government came into existence. As to this matter of the telephone service, therefore, there was no choice for the Chinese delegation.

Mr. Debuchi asked if the telephone systems at Nanking and Changsha were under management of the local government.

Dr. Sze answered that he could not tell without consulting the experts, but, however that might be, China was going to turn over a new page. The only regret was that there should be exceptions at present. They would not have any more of them.

Mr. Hanihara asked if the Chinese delegation could not take into consideration the actual facts and conditions in Tsingtao in the settlement of the matter in hand.

Dr. Sze said that according to the expert, the telephone system of Nanking was managed by a Chinese company, but that the shareholders were all Chinese.

Mr. Debuchi asked if it was suggested to exclude all foreign interests in Tsingtao.

Dr. Sze answered it was as far as the telephone service was concerned.

Mr. Hanihara said that he saw no reason why it should be difficult for the Chinese Government to give licenses to corporations to be newly formed in the territory over which China had not had any control for so many years. The whole question was about making proper arrangements about Tsingtao, for its passage from abnormal to normal conditions. It was only natural that in making those arrangements the actual conditions of the place should be taken into consideration. Except those few enterprises enumerated, there were practically none in which Japanese nationals could take part.

Dr. Sze said he admitted that Tsingtao was in an abnormal condition, but he thought there was no reason to perpetuate that abnormal condition.

Mr. Hanihara said that nothing of the sort was intended. It was only desired that the conditions antecedent should be taken into consideration. It was one thing to ask for participation by the Japanese in a new telephone system at other places in China. It was quite another thing to ask the same thing about the telephone system, in which the Japanese are actually so overwhelmingly interested, and that in a locality which had been under the actual control of Japanese authority.

Dr. Sze said that the Chinese delegation regretted that they could not give in the matter of principle regarding the telephone.

Dr. Koo said that in deference to the opinion of their neutral friend, Sir John Jordan, he would yield as to electric-light service.

Mr. Hanihara said that he wanted to observe that there was only one more enterprise, besides those enumerated before, which the Japanese delegation had in view. It was the Government laundry.

Dr. Koo asked how it was about the gas.

Mr. Hanihara said he did not know anything about the gas. He had to see if there was any gas service in Tsingtao.

Dr. Koo said that that would not present much difficulty for the purpose of the present discussion.

Mr. Hanihara said he found it difficult to agree to the exclusion of the telephone system, because the interest of the Japanese com-

munity in Tsingtao was actually so closely bound up with that enterprise. It was not proposed that it should remain in the hands of the Japanese, but that it should be turned over and made into a private Chinese undertaking, with, of course, the right of supervision in the municipal government. He suggested that the matter should be left for later consideration.

Dr. Sze said that he could not agree to that. It was desirable that they should be enabled to tell the public that the three days' discussion amounted to something.

Dr. Koo said that the total revenue of the stockyard and the electric light amounted to 510,000 yen a year, while that of telephone was only 87,000 yen. Mr. Hanihara wished to provide for the profits of the Japanese. But the telephone enterprise was the least profitable, as the figures showed.

Mr. Hanihara said he did not want to discuss figures. He only wanted to point out that under Government management the necessary improvements and extensions of the service would be found very difficult. Government funds would necessarily be limited. Experience of Japanese municipal enterprises showed the difficulty of meeting the needs of the public in small matters.

Dr. Sze said that, of course, a great deal would depend upon the sort of requests the subscribers might make. If the service was required 5 or 10 miles from the city, such demand could not be met either by private or Government enterprise. The Chinese delegation had met the Japanese demand almost at every point.

Mr. Hanihara hoped that Dr. Sze would not say that, because it was the Japanese delegation who were offering to give up everything.

WASHINGTON, D. C., December 9, 1921.

EIGHTH MEETING.

The eighth meeting, held in governing board room, the Pan-American Union Building, Washington, D. C., at 3 o'clock in the afternoon of Friday, December 9, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Gen. Fu Huang, Mr. Tung-Fan Hsu, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Prince I. Tokugawa, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori, Mr. S. Sakoh.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

Mr. Hanihara said that after consideration upon point (4) he was going to make a suggestion which he hoped would meet with the approval of his Chinese friends. If China was prepared to give assurance that due consideration would be given to the extensions.

and improvements to be required by the residents, the Japanese delegation would agree to turn over to China the telephone enterprise ad referendum. He thought that that was a very fair proposition. Difference of opinion that had arisen that morning would, in that way, be satisfactorily composed.

Dr. Koo replied that due consideration would be given to such matters needed no mention. He thought that Mr. Hanihara was not assuming that the present condition was perfect. Everything would naturally be done to have improvements and extensions made in the general interests of the community.

Mr. Hanihara thought that the only difficulty was that such things were sometimes neglected if there were no assurance.

Dr. Koo inquired whether Mr. Hanihara meant extensions and improvements for local service only.

Mr. Hanihara replied that that was precisely the case.

Dr. Koo said that, in order to meet the wish of the Japanese delegation, he and his colleagues would accept the Japanese proposal, but it was not to be incorporated in the agreement, but to be recorded in the minutes.

Mr. Hanihara said that he agreed. At this point the formula made by the Chinese delegates, reading as follows, was handed to Mr. Hanihara:

"Enterprises relating to electric light and telephone, stockyard, etc., shall be handed over to the Chinese Government with the understanding that the stockyard and electric-light enterprises are, in turn, to be handed over to the municipal government of Tsingtao, which will form Chinese corporations in conformity with the Chinese company law to manage them under municipal supervision and regulation."

Mr. Hanihara said that he wanted to make it clear that foreign nations would be allowed to participate in those enterprises.

Dr. Sze said that the Chinese company law allowed foreign nationals to own shares in the Chinese corporations.

Mr. Hanihara suggested that the phrase "the stockyard and the electric-light enterprises" be changed to read "the stockyard, electric-light, *and laundry* enterprises," because there was a laundry formerly run by the German Government, the management of which was succeeded to by the Japanese administration. He now desired to have that laundry enumerated in the agreement.

Mr. Hanihara, continuing, said that he did not know anything about Chinese law, but he wanted to make it clear, if not in the agreement, at least in the minutes, that the Japanese would be permitted to become shareholders in such enterprises.

Dr. Koo said that he had no objection.

Dr. Koo at this point said that as to the telephone service, he had made a formula which might be agreeable to his Japanese colleagues. The formula read:

"As regards the telephone enterprise which is to be handed over to the Chinese Government, the Chinese delegation give an assurance that the Chinese Government will give due consideration to requests from the foreign community at Tsingtao for such extensions and improvements as may be reasonably required by the general interests of the public."

Mr. Hanihara said that that was not sufficient. He wanted to secure the assurance of the Chinese Government.

Dr. Koo replied that that was as clear as could be. The good management of the telephone service would not only inure to the profit of the foreign community, but also to that of the Chinese themselves. However, if it was desired, he had no objection to have the above sense recorded in the minutes in some such way:

"The Chinese delegation give assurance to make recommendation to the Chinese Government * * *."

He wanted to know whether that met Mr. Hanihara's wishes.

Mr. Hanihara said that that was not exactly what he wanted. What he desired was that the Chinese Government themselves should give the assurance.

Dr. Koo replied that that was more or less implied.

Mr. Hanihara said that so far as those present here were concerned the meaning might be clear, but others might give a different interpretation. If that point was made clear, the Japanese delegation would agree to turn the telephone system over to China ad referendum.

Dr. Koo asked whether Mr. Hanihara was not in a position to decide at once.

Mr. Hanihara said that the Japanese Government had had no doubt that the Chinese Government would give ready consent to this point, and the instructions he had in this respect were very explicit. He had, therefore, to refer the matter to the Government for confirmation.

Dr. Koo agreed.

Mr. Hanihara said that the laundry enterprise above referred to should be expressly incorporated in the agreement in relation to those enterprises which were to be handed over to the municipal government of Tsingtao, with a view to their eventual transfer to Chinese corporations to be established.

Dr. Koo agreed that the laundry enterprise should be so incorporated.

Agreement relative to paragraph 4 read as follows:

"Enterprises relating to electric light, telephone, stockyard, laundry, etc., shall be handed over to the Chinese Government, with the understanding that these enterprises are, in turn, to be handed over to the municipal government of Tsingtao, which will form Chinese corporations in conformity with the Chinese company law to manage them under municipal supervision and regulation.

"As regards the telephone enterprise which is to be handed over to the Chinese Government, the Chinese delegation give an assurance that the Chinese Government will give due consideration to requests from the foreign community at Tsingtao for such extensions and improvements as may be reasonably required by the general interests of the public.

"The Japanese delegation agree to turn over the telephone enterprise to the Chinese Government, subject to confirmation by the Japanese Government."

CABLES.

Dr. Koo asked whether cables came under the head of public property.

Mr. Hanihara explained that his intention was to treat the question of cables separately.

Mr. Koo asked under what head they were to be included.

Mr. Hanihara replied that that question would be dealt with under item 8 of the Japanese memorandum dated September 7 last. The complicated aspects of the question made it more advisable that it should stand by itself. For example, in discussing that question they had to refer to the rights of the Great Northern Telegraph Co., and there were several other relevant questions which required more or less technical knowledge to be intelligently discussed.

Dr. Koo contended that they belonged to class (b) of the public properties which they had been discussing. They were German Government properties.

Mr. Hanihara insisted that the question should at any rate be treated separately.

Dr. Koo agreed that the question be discussed later, but he desired that the conditions could not be any severer than those imposed upon them in connection with the questions they had been discussing.

Mr. Hanihara said that the conditions Japan had been proposing were and would be all reasonable and fair.

Dr. Koo said that on that understanding the cable question would be discussed under item 8 of the note of September 7.

Mr. MacMurray inquired whether the above agreement would not have the effect of excluding nationals of other countries from enjoying the freedom of occupation; he understood that there were two Americans who were engaged in meat packing. He inquired whether they would not, on account of such formation of corporations, be obliged to discontinue their business.

Mr. Hanihara replied that that was not the case at all. The Japanese would be placed on an equal footing with any foreigners of other nationalities.

MACHINERY.

Dr. Koo said that he understood that there was a great deal of machinery in the shipbuilding dockyards in Tsingtao which had been temporarily removed to Japan. He wondered whether he could understand that they would come under class (b) of the public properties.

Mr. Hanihara said that he did not know, but, if they were taken away during the war, he wondered whether the Japanese Government had any obligation to return them.

He then consulted with his secretaries and said that the machinery was included under the head of class (b).

MIXED COMMISSION.

Dr. Koo said that both delegations had been speaking of establishing some mixed body of appraisal and valuation in connection with the transfer of public properties. However, he thought that the discussion of that body would better be postponed, in view of the fact that that question had relation to various other questions to be dealt with later; for instance, the matters falling under paragraph 8 of the Japanese note of September 7.

Mr. Hanihara agreed.

OPENING OF TSINGTAO PORT.

Mr. Hanihara said that the Japanese memorandum of September 7 last stated:

"§ 2. The Japanese Government will abandon plans for the establishment of a Japanese exclusive settlement or of an international settlement at Tsingtau provided that China engages to open of its own accord the entire leased territory of Kiaochow as a port of trade and to permit to nationals of all foreign countries freely to reside and to carry on commerce, industry, agriculture, or any other lawful pursuits within such territory, and that she further undertakes to respect the vested rights of all foreigners. China shall likewise carry out forthwith the opening of suitable cities and towns within the Province of Shantung for residence and trade of the nationals of all foreign countries. Regulations for the opening of places under the foregoing clauses shall be determined by the Chinese Government upon consultation with the powers interested."

For the purpose of accelerating the discussion, he would take up the question of vested rights in connection with the opening of the ports.

Dr. Koo said that he would be glad to hear the views of the Japanese delegation on that question.

Mr. Hanihara explained that by vested rights were meant all rights lawfully acquired, whether during the German régime or since the Japanese occupation, which should be recognized and respected.

Dr. Sze asked how Mr. Hanihara defined the term "lawfully acquired."

Mr. Hanihara said that he meant acquisition by ordinary lawful means.

Dr. Koo then desired to hear further observations on the question from Mr. Hanihara.

Mr. Hanihara said that the Chinese memorandum of October 5 stated: "The vested rights of foreigners obtained through lawful processes under the German régime shall, of course, be respected, but those obtained by force and compulsion during the period of Japanese military occupation and against law and treaties can in no wise be recognized." That would seem to intimate that some of the rights had been obtained by force and compulsion. But such was by no means borne out by facts. Payments were in each case made and willingly accepted by the sellers. If there were any evidence to substantiate that intimation, he would be glad to hear.

Dr. Koo said that he would be glad to give the Japanese delegates evidence concerning statements made in the note. But before proceeding to discuss such details, it might be desirable to attempt to arrive at some general principle. Of course, the statement did not preclude acquisitions during the Japanese occupation of properties by lawful processes. But he thought, for one thing, such land as had been requisitioned by Japanese military authorities for military necessities should be given back to Chinese owners.

Mr. Hanihara said that records showed that no land had been acquired by the Japanese troops without paying the price.

Dr. Koo said that the information of the Chinese delegation would seem to show that a great deal of landed properties were requisitioned

by the Japanese authorities at prices fixed arbitrarily by themselves without reference to the market prices, in some cases at from 35 to 50 yuan per mow.

Mr. Hanihara said that the Japanese information was entirely different from that. There was no instance of land purchased under duress, and in every case price was paid to the seller which was satisfactory to him. When Germany took Kiaochow, land was bought at prices prevailing at the time of obtaining the leasehold, but the Japanese military authorities bought land at the market value of the time. There was no question of coercion or compulsion. There were, indeed, a few people who agitated against the Japanese military authorities buying land, but, generally speaking, there was not much opposition. The price offered was willingly taken. In the Japanese civil office of Tsingtao there were records of all the purchase contracts of land. He thought the question concerning the purchase of landed properties could be adjusted by local settlement.

Dr. Koo said that there might be properties lawfully acquired even during the Japanese occupation. Without trying to settle individual cases, an agreement might perhaps be reached as to general principles.

Mr. Hanihara said that he thought it was a sound suggestion. They could not enter into details here. Any agreement made here must necessarily be on general terms.

Dr. Koo said that the vested interests acquired under the German régime would be respected, as a matter of course. As for those acquired during the period of the Japanese military occupation, they would be respected if it should be proved that they were acquired lawfully and equitably.

Mr. Hanihara said that no reflection or intimation that there had been any unlawful acquisition could be allowed.

Dr. Koo said that the question of vested rights acquired during the period of Japanese occupation might perhaps be better left to the discussion of the commissioners. He suggested that it would be better not to go into that question here.

Mr. Hanihara said that he thought it would facilitate progress if it should be agreed on general terms that all vested rights should be respected, whether they were acquired under the German régime or during the period of the Japanese occupation, with the understanding that matters of detail should be treated by the commissioners of Japan and China. Should it turn out that any of those properties were acquired unlawfully they could be treated accordingly by that commission.

Dr. Koo said that he would submit a rough formula for consideration:

"The vested rights of foreigners lawfully acquired under the German régime shall be respected; and all claims in regard to vested rights acquired during the period of the Japanese military occupation should be arranged by the Sino-Japanese Joint Commission. In case of dispute the matter shall be submitted to arbitration."

Mr. Hanihara said that he wanted to have it made clear that there was no intimation of unlawful acquisition during the Japanese occupation. There was no reason to make distinction between the vested rights acquired under the German régime and those acquired during the Japanese occupation so long as these were acquired

lawfully. He wondered why it could not be plainly stated that all vested rights of foreigners should be respected so that all possibility of misunderstanding might be avoided. Moreover, he did not agree to arbitration. He was for settling all differences between China and Japan themselves.

Dr. Sze said that it was, of course, hoped that differences might be arranged in that way; only it was desirable that in case of dispute a way out should be provided for.

Mr. Hanihara said he could not brook any arrangement which implied reflections upon Japan.

Dr. Koo thought it was only natural that honest doubts might arise about certain matters.

Mr. Hanihara said, if commissioners of both Governments investigated the matter on the spot no serious difficulty could arise.

Dr. Sze said that the Chinese proposition was only made to meet the possible contingency of difficulty arising as to the practical settlement.

Mr. Hanihara said that these details should be left to local settlement. Even if there should arise some difficulty it would not be anything like an international difference of a serious character.

Dr. Koo said that they need not necessarily go to The Hague. Only a small international board would answer the purpose.

Mr. Hanihara said that he did not like the idea of arbitration.

Dr. Koo disavowed any desire on the part of the Chinese delegation to cast any reflection either upon the Japanese authorities or upon the Chinese claimants.

Mr. Hanihara said he did not see why the Chinese delegation could not trust their own officials who would be called on to participate in the practical settlement.

Dr. Sze said that should those commissioners fail to agree it was best to have provided means of arbitrating the difference.

Mr. Debuchi said that they were meeting here in a friendly spirit and that the desire for a speedy and satisfactory settlement was unanimous. He felt sure such minor details would be settled easily on the spot. He begged to express his hope that the Chinese delegation would remove from their minds the apprehension of eventual disagreement. He thought that unless the possibility of eventual disagreement were set aside for the moment the progress of the discussion would be impossible.

Dr. Sze said that the Chinese delegation wanted this settlement to be final.

Mr. Debuchi said that even if they tried to settle questions of minor detail here, the necessary knowledge was not available. From his personal experience in Peking he felt sure that those small matters would be satisfactorily settled by the commissioners.

Dr. Sze said that he saw no reason why the principle of arbitration should not be accepted by the Japanese delegation.

Dr. Koo suggested that since they could not agree about the principle of arbitration they could only put aside this question of contingent dispute and arbitration. He desired therefore first to settle the question of general principles in dealing with the vested rights of foreign nationals in Tsingtao. He would suggest the following formula:

"The vested rights lawfully and equitably acquired by foreign nationals in Tsingtao under German régime, or during the period

of the Japanese military occupation, will be recognized. All questions relating to the status or validity of such vested rights shall be arranged by the Sino-Japanese Joint Commission.

Dr. Koo, continuing, said that there were certain obvious exceptions to the above rule. The first of these exceptions was the salt industry in Tsingtao. It was hardly necessary to emphasize the importance to China of this particular industry. As Mr. Debuchi knew so well, salt Gabelle was one of the principal sources of revenue of the Chinese Government.

Mr. Hanihara said that as to the salt industry in general he fully realized its importance to China. He knew full well that salt Gabelle formed the security of international loans, but he understood that salt produced in Tsingtao was set aside as surplus and was placed outside the monopoly system. Under the German régime license was given to private individuals for salt industry. Japan followed the same policy and granted licenses to Japanese capitalists in Tsingtao. The salt industry in Tsingtao grew remarkably in the hands of those Japanese. Two or three big corporations had been formed and considerable amount of capital was invested in the industry. Tsingtao salt was now being freely exported to Japan, which stood in great need of that article. As was stated above, the salt produced in Tsingtao stood by itself. In other words, it was treated separately from the products of other parts of China and of the Shantung Province. The Chinese Government once tried in vain to extend the monopoly system to the salt industry in Tsingtao.

Dr. Koo asked Mr. Hanihara if he was speaking of the conditions prevailing during the Japanese occupation.

Mr. Hanihara answered that what he stated applied as well to the period before the Japanese occupation. So far as he could see the salt industry of Tsingtao did not affect the monopoly system of the Chinese Government in any way whatever, while to the Japanese it was of such great importance and the rights and the interests of the Japanese were involved to a very great extent in the industry.

Dr. Koo said that the conditions prevailing under the German régime and the actual needs of the Chinese Government must be considered separately.

Mr. Hanihara said that there had not been much salt industry before the Japanese occupation. It went without saying that in leaving the industry in the hands of the Japanese a reasonable arrangement was, of course, to be made with the Chinese Government.

Dr. Koo said that his figures showed that under the German régime 84,000,000 pounds of salt was annually produced by the Chinese, while the yearly production by the Japanese amounted to 270,000,000 pounds. The very fact that the salt industry in Tsingtao grew to such proportions must be taken as an additional reason why it should be amalgamated into the general salt industry of China. The Japanese authorities were levying a tax of 4 yen per ton upon Tsingtao salt. Thus quite a considerable revenue was involved in the question.

Mr. Hanihara said that it was because of the Japanese control that the salt industry had developed so much in Tsingtao. The failure of the Chinese Government to extend their monopoly system to Tsingtao was, he was told, on account of the opposition of the Chinese people of Tsingtao. In desiring to protect the interests of

the Japanese capitalists the Japanese Government were not doing anything that would encroach upon anybody's rights.

Dr. Koo said that the Chinese delegation could not see their way to make any concession so far as the question of taking over the salt industry was concerned, but if that principle was recognized they were disposed to entertain any reasonable suggestion about the exportation of salt to Japan.

Mr. Hanihara said that the Japanese authorities had granted salt licenses on the strength of the privilege which they succeeded to from the Germans. The interests of the Japanese nationals had thus been lawfully acquired and the Japanese Government felt in duty bound to do their best to protect those interests. If the recognition of those interests were to be detrimental to the national interests of China, the question would be different, but, as pointed out before, the salt industry in Tsingtao was outside the monopoly system of China and whatever was done with it would in no way encroach upon that system. Moreover, the salt industry in Tsingtao had been built up entirely by the Japanese, and the question was therefore about something which China had not possessed before. Of course, in having the industry allowed to the Japanese everything possible would be done to conform to the laws and regulations of China.

Dr. Koo said that apart from the question of the industry itself the Chinese delegation were entirely disposed to consider any suggestion about the exportation of salt.

Mr. Hanihara said that he could not yield. The interest of the Japanese was so vitally involved in the industry, while its importance to China was not so great.

Dr. Koo said that if the salt industry in Tsingtao was kept by Japanese operators it would not be fair for salt industry in other parts of China to have to compete with the protected industry in Tsingtao.

Mr. Hanihara said that it was not at all suggested that Tsingtao salt should be exported to other parts of China. The exportation was strictly to be confined to Japan alone.

Dr. Koo said that that latter point might be met by making some arrangement, after the industry had been taken over, whereby a certain amount of salt should be annually exported to Japan. The need of salt monopoly could not be impressed too strongly upon the Japanese delegation. He hoped that they would not press for something which no other nationals possessed in China and which would interfere with the monopoly system of China.

Mr. Hanihara wished to point out once more the fact that the salt industry in Tsingtao had never been the source of Chinese revenue, and that China now proposed to take away what others had built up. He didn't think it fair at all.

Dr. Sze observed that he should like to mention some cases where salt was found along the Shantung Railway as far as the city of Tsinan-fu.

Mr. Hanihara answered that he didn't know anything about that, but that the Japanese Government would go to any extent in preventing the smuggling of salt.

Mr. Debuchi remarked that as to smuggling there was concluded an agreement in March, 1919, between the Japanese consul general at Tsinan-fu and the Chinese salt administration, whereby a certain

amount of salt was permitted to be transported westward from the leased territory. The smuggling stopped since then. The eastern district of Shantung Province had always been placed outside of the purview of the salt Gabelle. Sir Richard Dane wanted to have that district under his administration, and, in fact, he sent some officials to Shantung with that end in view, but the people of Shantung revolted and there was actually a riotous demonstration against the attempted amalgamation. For thousands of years this eastern side of Shantung had been regarded as outside the monopoly system. The native salt had always been exported to Korea and Manchuria by junks. That was the most prominent feature of the salt industry of this particular district of Shantung. The Japanese delegation appreciated the position of the Chinese representatives in regard to the need of a uniform monopoly system, but the particular aspect of the Shantung salt industry just mentioned and the interests of the Japanese, who had built up that industry, should be taken into consideration.

Dr. Koo said that he understood that under the German régime the salt industry had been carried on by the Chinese.

Mr. Hanihara said that even now there were many Chinese who were engaged in that business.

Dr. Koo admitted that, but he said they formed a decided minority.

Mr. Debuchi said that in 1914, 1,779 Japanese acres of salt field were worked by Chinese, and that it had now increased to 2,078 acres, while the Japanese were working only 1,024 acres.

Dr. Koo said that according to his figures for 1919, 8,133 Japanese acres belonged to the Japanese and 250 Japanese acres to the Chinese. Mr. Debuchi had spoken of the exceptional situation in Tsingtao, but the fact must be recognized that Japan was insisting upon having something which other treaty powers did not enjoy. In taking over the salt industry, fair compensation would, of course, be given, and, moreover, suitable arrangements would be made for the exportation of salt to Japan. He hoped the Japanese delegation would reconsider the matter.

Mr. Hanihara said that it was difficult for him to bring himself to accept the Chinese viewpoint. There was no question of exclusive rights for the Japanese. Japan did not object to any other foreign nationals engaging in the industry in Tsingtao. Even under the German régime all foreigners alike had the right to engage in the business, but foreigners did not go into the business those days. All Japan requested was to have the rights and interests built up by the Japanese respected. All intention to carry salt into the interior of China had been disavowed. The Chinese delegation were asking something which they could not reasonably expect to have if they faced facts as they were.

Dr. Koo said that it would be different if the question were of an ordinary industry.

Mr. HANIHARA said that the salt industry in Tsingtao stood upon entirely different footing from that in other parts of China.

Dr. Koo said that the facts and conditions under the German régime could not well be taken as the basis of discussion. It must be remembered that now the leasehold was to be returned to China.

Mr. Hanihara said that the leasehold was, of course, to be returned, but vested rights were another question. But for the very great

importance of this industry to the Japanese people he would not be so insistent.

Dr. Koo said that if it were an ordinary industry there would be no difficulty.

Mr. Hanihara said that there had been no salt industry in Tsingtao before. It was the Japanese who had built it up.

Dr. Koo said that the need of China's Government monopoly must be considered.

Mr. Hanihara said that that Government monopoly set aside the Tsingtao salt as surplus.

Dr. Koo said that it was a condition which prevailed for centuries before salt monopoly came into operation in China, before there was any Government monopoly in Japan either.

Mr. Hanihara admitted that the condition prevailed for centuries, but the Chinese Government did not succeed in its recent attempt to extend the monopoly system to the district of Tsingtao.

Dr. Koo said that it was only an imperfection in the system which it was not desired to perpetuate.

Mr. Hanihara pointed out that it was a private industry—no Government could take away arbitrarily the interests of private individuals legitimately acquired.

Dr. Koo said that it would be agreed that all Governments could take up private industry for monopoly.

Mr. Hanihara said that Dr. Koo was talking about a normal condition of things. Japan proposed to restore Kiaochow, for the acquisition of which she had paid so large a sacrifice. In restoring it she now proposed to retain for her nationals things which would not injuriously affect the national interests of China, but which were so vitally important to the Japanese people. If it was proposed that Japan should give up everything found within the leased territory, there would be no need of her representatives coming here to negotiate about the matter.

Dr. Koo said that throughout the course of the conversations the willingness of the Chinese delegation to meet the Japanese demand, as far as they might, was well demonstrated, but here opinions of both sides differed so widely.

Dr. Sze said that the Chinese delegation had offered to make arrangements for the annual exportation of a certain amount of salt to Japan, because they wanted to meet the Japanese viewpoint. They knew that salt was needed by Japan and that money had been spent by the Japanese in the industry.

Mr. Hanihara said he hoped that his Chinese friends would give further consideration to this matter.

Dr. Koo said that salt monopoly had been adopted in China for centuries. It was hard to recognize an exception, not only for the Japanese but for any other foreign nationals.

Mr. Hanihara said that the application of any law varied with the actual circumstances. He thought there was nothing unreasonable in the Japanese demand. It was true that China had a monopoly system for centuries, but that system had never applied to the eastern district of Shantung. Moreover, the Japanese had not encroached upon anybody's rights. They merely wanted the continuance of their present position. It might be different if it was proposed to

create new exceptions, but it was just the continuation of an exceptional condition which had always existed. He hoped that the Chinese delegation would reconsider their position.

PRESS COMMUNIQUÉ.

It was decided that the press communiqué for to-day be issued in the annexed form (Annex I).

The meeting adjourned at 5.30 p. m. The next meeting will be held at 3.15 p. m. to-morrow.

WASHINGTON, D. C., *December 9, 1921.*

SJC-8.]

ANNEX I.

DECEMBER 9, 1921.

[For the press.]

The Chinese and Japanese delegates met in the governing board room of the Pan American Union Building at 11 o'clock this morning and 3 o'clock this afternoon. The discussion on public properties was completed. The question of opening the port of Kiaochow was taken up, and the salt industry at Tsingtao was then discussed. The meeting adjourned until 3.15 to-morrow afternoon.

NINTH MEETING.

The ninth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3.15 o'clock in the afternoon of Saturday, December 10, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Tsai, Mr. Tung-Fan Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

Dr Sze said that it was with great pleasure that he saw Baron Shidehara well again. He wished him continued good health.

Baron Shidehara thanked for the kind expressions of Dr. Sze, and said that he was very much pleased to come to the meeting. He was unable as yet to take an active part in the discussions, but he was glad to be with his friends.

SALT QUESTION.

Mr. Hanihara asked whether the question of salt should be taken up before that of the railway. He had given a careful consideration.

to what the Chinese delegates had stated the day before. He was, however, unable to alter his position. It was his earnest hope that some means of adjustment should be found. If they did not do their best to that end, they would not be faithful to their duty. As he sincerely desired to give further consideration to the Chinese proposition, he wished that the Chinese delegates would once more state their position in as concrete a form as possible.

Dr. Sze said that, to summarize again the Chinese position in a concrete form, it was: (1) That a certain amount of the salt produced in Shantung, being required by Japan, he and his colleagues were prepared to meet the Japanese wish in that respect to the fullest extent possible; (2) that the investment made by the Japanese in the salt enterprise would be fairly and equitably compensated for. He and his colleagues had no intention to injure the interests of the Japanese in the salt industry. These were the essential points. If the salt industry were an ordinary business enterprise, he should not see much difficulty in conceding to the Japanese point of view; but, it being under Government monopoly in China, it was desired that all parts of the country should be placed under the same unified system.

Mr. Hanihara inquired whether he was correct in understanding that the Chinese proposal was, first, that China, realizing the need of salt in Japan, was prepared to export a certain amount of that article; and secondly, that proper compensation would be given for the investment by the Japanese. In order that the Japanese delegation might be enabled to give a close and careful consideration to the Chinese proposal, he would like to get a little more concrete idea as to the manner in which the compensation was proposed to be made. If Dr. Sze had any specific plan, he and his colleagues would be ready to give it special consideration.

Dr. Sze stated that, as to the question of fair compensation, it was necessary to have some local knowledge which the Chinese delegation lacked. It would, therefore, be best to leave the matter to the investigation on the spot. It would not be fair to go into details without local information. It was therefore proposed that they set aside the question of details and try to see whether they could not agree on general principles.

Mr. Hanihara said that he could not commit himself to anything apart from what he had said the day before. However, he was prepared to give further consideration to the matter with a view to working out some suitable arrangement. The salt question was a very important one. He and his colleagues were quite prepared to give full consideration to any Chinese suggestion.

Dr. Sze inquired whether he could get some idea as to the amount of salt Japan might want.

Mr. Hanihara replied that, unfortunately, the Japanese delegation had no actual figures.

Dr. Sze inquired whether it was the wish of the Japanese delegation to discuss the question some other day.

It was agreed that the question of the salt industry should be left in abeyance and that the question of the railway should now be taken up.

RAILWAY.

Mr. Hanihara said that in respect of the railway question, the Japanese delegation had made their position clear at a previous meeting. It had also been clearly stated in the Japanese memorandum of September 7. The question was one of the greatest, and perhaps the most difficult of all the questions with which they had to deal. First of all, the Japanese delegation desired to hear the Chinese proposition in full, so that they could give careful consideration to the matter.

Dr. Sze suggested that they took one phase of the question first in order that an agreement might be easily reached. China had for years tried to unify her railway system—the system of accounts, of rolling stock, of the construction of bridges, and of other equipments. If each separate railway had separate administration, greater expenditure would be incurred in its construction and operation. It would be necessary to charge higher fares to passengers and higher freight on cargoes. Such was the reason why China had gradually come to adopt a unified system. That was one of the principal reasons why he and his colleagues found it difficult to accede to the Japanese proposal of a joint arrangement. The unified system would offer cheaper service to passengers and freight in the long run. That was the underlying motive in which the Chinese proposal was conceived. It was therefore earnestly desired that Japan would not insist on the joint system.

Mr. Hanihara said that he had for the present no comment to make upon what Dr. Sze had just said. He would like to base all discussions on a concrete proposition; he would like to discuss the question as a whole, because it was very difficult to consider any special phase by itself.

Dr. Sze said that if this question of principle was agreed to by the Japanese delegation it would afford great facility to the Chinese delegation, inasmuch as they could frame their proposal on the basis of that principle.

Mr. Hanihara said that that was exactly the point which it was not easy for the Japanese delegation to meet. He admitted that the question of uniform railway system was of first importance from the viewpoint of the Chinese delegation, but he wanted to emphasize the fact that what they were concerned about here was the settlement of the Shantung Railway. It was therefore desired that the whole proposition in regard to that settlement should be offered by the Chinese delegation.

Dr. Koo observed that until they had come to an agreement on general principle it would not be of much help to discuss detail. At the same time, it might be said on behalf of the Chinese delegation that they desired to manifest the same measure of fair and reasonable spirit on this question as had been shown in previous discussions, and that, therefore, they would be prepared to consider reimbursing Japan to the extent of half of the total value of the railroad on condition that Japan agreed to transfer the Shantung Railway to China, to be controlled and managed by the Chinese Government as part of the Government railway. He also desired to point out that that proposal of the Chinese delegation had been offered so that the wishes of the Japanese Government to have a half

interest in the railway might be met. He said that he appreciated the usefulness of joint enterprise in general in China, but on this particular question the position of the Chinese Government was quite difficult. There was no way for them to depart from the settled policy of railway unification. He did not wish to convey any idea that he was trying to impose anything at all. He was merely trying to make clear the extreme necessity for China to have all her railways completely restored to the control of the Government.

Mr. Hanihara desired to ask a question for his personal enlightenment: What did the Chinese delegation mean when they said that they were prepared to reimburse Japan to the extent of half of the total value of the railway?

Dr. Koo replied that the total property of the railway and its appurtenances would be fairly valued, wherefrom would be deducted such sum as represented the shares that were held by the Chinese. Such shares represented a very small sum. After that deduction the sum would be divided in half and one-half would go to Japan under the Chinese plan. The Chinese delegation were prepared to reimburse Japan to that amount.

Mr. Hanihara understood that the first step would be the valuation of the entire railway property. He wondered whether Dr. Koo included the mines among the appurtenances to be valued.

Dr. Koo said that originally these mines were attached to the railway, but later they were operated by the Shantung Mining Co. But other appurtenances, such as stations, etc., belonged to the railway.

Mr. Hanihara stated that apparently the Chinese delegation attached great importance to the railway itself. He wondered whether the intention of his Chinese friends was to deal with the mines separately.

Dr. Koo said if the Chinese delegates could have assurance as to the railway itself, if the control and the management of the railway were altogether to be turned over to China, then in consideration of that assurance he and his colleagues were prepared to entertain any suggestion the Japanese delegation might make as to the mines. However, he did not wish to commit the Chinese delegation on that point.

Mr. Hanihara said that if he had understood his Chinese friends correctly, something was said about the branches of the railway. He desired to know whether by them were meant branches leading to the mines or such lines as the Kaomi-Shunteh Railway and the Yentai-Weihsien Railway.

Dr. Koo said that he did not mean to include these extensions the construction of which he understood had not yet been started.

Mr. Hanihara said that he was not yet quite clear about the Chinese idea as to the valuation of the railway itself and of the half of the value China proposed to pay to Japan. He desired further explanation.

Dr. Koo wondered whether he could make the Chinese position any clearer, but he would try. The idea of reimbursement had really been designed to meet the Japanese point of view, in substance, inasmuch as the Chinese delegation were disposed to make payment of the equivalent of half of the total value of the railway. In doing that China was really giving Japan the substance, so to speak, of

what she had been seeking in advancing the proposal of the joint undertaking. With that the Chinese delegation asked that the whole line should be owned and operated as the Chinese Government railway.

Mr. Hanihara inquired whether the Chinese proposition was to allow the Japanese to have interests in the railway to the extent of half of its value.

Dr. Koo said that the proposition was to compensate Japan. To use a common phrase, China would "buy out" the Japanese interest in the enterprise.

Mr. Hanihara inquired as to the method of valuating the total property.

Dr. Koo replied that the Chinese delegation were not yet prepared to give any practical plan. He wondered whether the Japanese delegation had any idea in that connection.

Mr. Hanihara replied that Japan had her own plans as to the method of valuation to be applied when the Japanese proposal was accepted, but he did not desire to complicate the matter by stating them at that moment. He desired to know the Chinese plan.

Dr. Koo said that that was a question of procedure. He preferred an agreement on the principle first, which would make the matter of procedure susceptible of easy solution.

Baron Shidehara at this point desired to ask a question of Dr. Koo. There was some phase of the Chinese proposal which was not quite clear to him. It was proposed that a valuation should be taken of the whole railway properties, and that half of the value should be paid to Japan. Suppose the total value of the railway amounted to 20,000,000 yen. It would seem that according to the proposal of China she would have to pay to Japan only 10,000,000 yen in order to acquire the whole railroad, while Japan, by an arrangement with Germany, was to credit the whole value of the railway to the German reparation account. Thus she would have to pay 20,000,000 yen, while getting only 10,000,000 yen from China. Far from getting anything, Japan would simply lose 10,000,000 yen. He wondered if the Chinese proposition would not lead to that conclusion. He wondered if that was not the idea of the Chinese proposition.

Dr. Koo said that the statement of Baron Shidehara called for further observation as to the original idea of China in making the present proposal. The Shantung Railway was situated almost entirely in the Chinese territory with a very small section in the leased territory of Tsingtao. The Chinese Government had always taken the position that the occupation by the Japanese troops had not given any title to Japan in respect to the railway. If the railway was to be taken as a prize of war, it should have gone to China, within whose territory it was situated. In the Japanese proposal of September 7 the plan of joint undertaking was suggested. Japan desired to have half interest. China was not prepared to accept that proposal, but to meet the wishes of Japan she would pay half of the total valuation.

Baron Shidehara said that that was the point he did not quite understand. If China was going to take over the whole property, it was only reasonable for her to pay the whole value. He did not see why Japan should be called upon to pay half of that value.

Dr. Koo inquired whether Baron Shidehara meant that Japan had to pay for the railway.

Baron Shidehara replied that the matter was in the hands of the reparation commission in Paris. Japan would most probably have to pay to Germany something like -----.

Mr. Debuchi supplied the figures as being 30,000,000 yen. That arrangement had been made tentatively by the reparation commission.

Baron Shidehara, continuing, said that the Chinese idea was that Japan should give everything over to China and pay, withal, half the value of the whole railway.

Dr. Koo said that the Japanese Government had the advantage of being kept informed as to the execution of the treaty of Versailles. The proposal of the Chinese Government was based upon the situation before that treaty was signed. He had thought that the question whether that railway was of a private or public nature had not yet been decided. The position of Japan, he understood, had been to regard the railway as a legitimate prize of war, but that the point had been left open. Now, he found that Japan had to pay for the railway, and on that account China might have to change her position.

Baron Shidehara said that apparently the Chinese delegation based their proposal on the assumption that Japan had acquired the railway properties without paying anything for them.

Dr. Koo said that he had thought the discussion at the peace conference had been conducted on that basis. If the railway was to be treated as a prize of the war, it was felt that the railway, being situated in the Chinese territory, no country would be more entitled to it than China.

Baron Shidehara said that the situation was quite clear to him now. He thought at first that Japan would have to pay 30,000,000 yen to Germany, as had been tentatively agreed with that country, while she would get from China only 15,000,000 yen. He should suppose that the whole Chinese proposal would now have to be modified. He wondered what that modified proposal might be.

Dr. Koo said that the offer of the Chinese Government to pay, as compensation, half the value of the railway, minus the amount of such shares as were held by the Chinese, had been designed to meet in substance the point of view of the Japanese Government as expressed in their note of September 7. In other words, the proposal had been made with the best of intentions in order to meet in substance the Japanese suggestion of joint enterprise without compromising the position of the Chinese Government as to the question of principle.

Baron Shidehara said that obviously the Chinese delegation had been laboring under some misunderstanding. When Japan proposed joint enterprise the idea was that, if accepted, Japan would, of course, have to bear the burden of the payment to Germany in equal shares with China. The Chinese proposal was that the whole railway should be taken over by the Chinese Government. Japan would now have to pay Germany alone, it having been agreed that the Shantung Railway was a private undertaking.

Dr. Koo asked if under the Japanese plan it was not intended that half of the value of the railway should be offered to China.

Mr. Hanihara said that the Japanese proposal might be stated thus: Suppose the total value of the railway amounted to 50,000,000 yen, then China would put up 25,000,000 and Japan the other 25,000,000, thus making the whole enterprise a half and half affair.

If for the railway Japan had to pay 30,000,000 yen, it was, under that arrangement, up to China to pay 15,000,000 yen. He wondered if, in making the proposal that China should take over the whole railway property after paying to Japan half its value, China was prepared to pay 30,000,000 yen herself to Germany; or if it was the idea of the Chinese Government that Japan should still make that payment alone and lose instead of gain anything from the settlement.

Dr. Koo said that the Chinese proposition had been based on the assumption that Japan had nothing to pay for the railway. That point was now made clear to him by the ambassador's statement.

Baron Shidehara asked if there were any Chinese shareholders.

Dr. Koo said that there had been 300 original Chinese shares besides 60 shares which had been subsequently acquired by Chinese, and that the amount of each share was 1,000 marks.

Baron Shidehara explained that there was an arrangement whereby the German Government was to pay for individual shares. It had been agreed that Germany should hand over to Japan a clean property without any strings attached to it. He understood there were some shares which were owned by other nationals.

Dr. Koo said that the Shantung Railway shares were unregistered shares and that perhaps there might be some more shares which had come to the possession of Chinese without the fact being recorded.

Baron Shidehara said that these shares would have to be redeemed by the German Government.

Dr. Koo asked if the redemption of all these shares was to be left to Germany.

Baron Shidehara answered that it was the case. He added that he wanted to correct himself on a minor point. It was at the reparation committee instead of between the Japanese and German Governments that the arrangement regarding the Shantung Railway had been made.

Dr. Koo said that he appreciated the fact that the information just given to him necessitated some alteration in the Chinese proposal. As had been stated by his colleague, Dr. Sze, the Chinese delegation were desirous to meet the Japanese viewpoint in a fair and reasonable spirit and they were therefore prepared to reimburse the total value of the Shantung Railway on the conditions already mentioned. It might be stated as a corollary to that new proposal that out of the total value of the railway should be deducted such amount as represented the surplus profit of the railway for the past few years. He wished to add that, in order to simplify the process of accounting, the amount of railway shares owned by the Government and private individuals of China might be deducted from the total valuation. The amount represented by those shares was at any rate a small matter.

Baron Shidehara said that the whole proposal seemed to him to amount to this, that Japan was to get nothing. It was proposed that China should pay Japan the whole value of the railway, but Japan had to pay that to Germany. The result would be that Japan would have no share, no interest whatever in the railway. China would take everything.

Dr. Koo said that China understood that Japan had taken possession of the railway to prevent its being used by the Germans, and that she was holding it with a view to its eventual restoration to

China. He wondered if Baron Shidehara was not referring particularly to the suggestion that profit from the railway should be deducted.

Baron Shidehara said that it was not that alone, Japan was not getting any benefit at all according to the Chinese plan.

Dr. Koo admitted it was true. It was possible China had misconstrued Japan's purpose in taking possession of the railway. It had been thought that Japan had occupied Tsingtao and taken possession of the railway to prevent their being used in such a way as to endanger our position. It had not been supposed that desire for material benefit had been part of her purpose.

Baron Shidehara said that, apart from the political phase of the question, the fact was plain that Germany had property rights in Tsingtao and that she had agreed to transfer those property rights to Japan. The property was now Japan's, but Japan had to pay for it because it had been agreed that the railway was a private enterprise.

Dr. Koo explained that when he suggested the profit for the last few years might properly be deducted from the whole value of the railway he did not know whether there was any profit at all. He merely thought that it was a reasonable suggestion. He was yet to be informed on that point.

Baron Shidehara said he did not possess any information as to the profit or loss, as the case might be. He wanted to mention, however, that it was his impression that the Japanese Government had sent railway experts and officials and that their salaries had been paid out of the Government treasury.

Dr. Koo said that the matter of salaries paid to these railway officials and employees would not be difficult to adjust.

Baron Shidehara said that he might add that besides the 30,000,000 yen, which Japan would most probably have to pay to Germany, she had also invested large sums of money in the railway. When she had taken possession of it, the railway had not been in working order. He did not know to exactly how much those investments might amount.

Dr. Koo asked if those investments had been made out of the Government treasury or from the profits of the railway.

Baron Shidehara said that he had no exact figure.

Baron Shidehara, continuing, said that one of his colleagues was under the impression that part of the investment had been defrayed out of the Government treasury and part from the profit.

Dr. Koo asked if he could be informed whether there was any profit for the last few years.

Baron Shidehara said that actual figures were not available. He was glad that this meeting had very much clarified the situation. There was much misunderstanding, at any rate, on the part of the Chinese delegation.

Dr. Koo hoped that that clarification would lead to a speedy solution of the question.

Dr. Sze said he should like to hear Baron Shidehara's opinion about the second proposal of the Chinese delegation.

Baron Shidehara said that he had no suggestion to offer at present. It seemed to him, however, that the second proposal was, if anything, worse than the first. Under the first proposal Japan would get at least half the amount of the whole value of the railway, while she

would not be getting anything under the second proposal. Moreover, it was proposed that the revenues of the railway for the past few years should be given up. The second proposal was really less favorable from Japan's standpoint.

Dr. Koo said that if so the responsibility lay more with the reparation commission than with the Chinese delegation.

Dr. Sze said that the first proposal had been made to meet in substance the Japanese proposal of joint enterprise.

Baron Shidehara said that if the Chinese proposition was a reply to the Japanese proposal, he did not see why only half of the whole value of the railway should be offered. He understood, however, that the proposition had been based on a misunderstanding.

Dr. Sze said that in the interest of a speedy settlement China had offered to pay at once half the amount which had been mentioned in the Japanese proposal; but that, finding out that the offer had been based on a wrong assumption, they now offered the amount of the whole value.

Baron Shidehara said that the whole situation was now clear; that he was glad to hear that the first proposal of the Chinese delegation had been based upon a misunderstanding. He hoped that his Chinese colleagues would reconsider their counterproposal and that their new proposal would not go to much worse than the first.

Dr. Sze asked if it was intimated that the question of principle advanced by the Chinese delegation was to be recognized.

Baron Shidehara said that he did not mean to say as much as that. He desired to make sure of the meaning of the Chinese proposal. The first step in any discussion was the complete understanding of the question at issue. He wished fully to understand the Chinese point of view; he came here with no preconceived idea. He did not come here to make any proposal. His mind was open to any reasonable suggestion.

Dr. Koo said that the second proposition of the Chinese delegates might be worse to Japan, but that would cost China twice as much as the first offer.

Mr. Hanihara said that the Japanese delegation could produce the figures for the revenue of the railway. As for the expenditure, he could positively state that it had been defrayed by the central treasury of Japan.

Dr. Koo inquired whether the revenue might be regarded as surplus profit.

Mr. Hanihara replied that that represented only the gross revenue and was by no means to be taken as surplus profits.

Dr. Koo said that that might be the case, but that there would be no difficulty in finding out the amount of the exact surplus profits.

Mr. Hanihara said that the Japanese system of accounts was entirely different.

Dr. Koo said that that was merely a question of accounting. The figures could perhaps be easily ascertained. If his Japanese friends would agree to the principle advanced by the Chinese delegation, that would help them a good deal. The details could be discussed at later meetings.

Mr. Hanihara said that what he wanted to have from his Chinese colleagues was a concrete proposal. As Baron Shidehara said, the Japanese delegation had only been trying to clearly understand the

Chinese standpoint. He was glad that the baron had pointed out the misunderstanding on which the Chinese proposal had been based.

Dr. Koo said that the misunderstanding was costly to China.

Baron Shidehara said that that would be no reason why Japan should bear the cost of that misunderstanding.

Mr. Hanihara desired that the Chinese delegates would present their proposal in writing, in a concrete form. Not that the Japanese delegation tried to bind the Chinese delegates in any way, but simply it was thought advisable to avoid any misunderstanding.

Dr. Koo said that if the principle was decided upon, the Chinese delegates would be glad to present their concrete proposition. That would really facilitate the discussion. He would ask his Japanese friends not to leave this meeting without leaving a "milestone," to use the words of Secretary Hughes that morning.

Baron Shidehara said that he would approach the question from the practical rather than the theoretical standpoint. He desired to have a more concrete plan than that which had already been offered. The new Chinese suggestion was worse than the original, and by no means acceptable. He desired the Chinese delegates to reconsider the matter.

Dr. Sze said that in the discussion of public properties, the course followed was to agree on the principle first. If the Japanese delegation could see their way to adopt that system and tentatively agree upon the principle in respect of the railway also, that would facilitate the discussion in a large measure. He would feel very optimistic about the outcome of the deliberations.

Mr. Hanihara stated that the principle involved in the present question would seem to be whether the system of joint enterprise was to be adopted or not. In discussing the principle, it was necessary to ascertain all detailed points.

Dr. Koo said that the principle China had now proposed was a principle of full compensation of the whole property.

Mr. Hanihara said that he hoped that the Chinese delegation would understand the Japanese position. He and his colleagues had already expressed their readiness and willingness to consider any proposition that they might make, apart from the Japanese proposition. The Japanese delegation, however, were not prepared to give up their position. In the meantime, the Japanese delegation would be glad to receive any further proposition with a view to finding a means of adjustment. They should be in a form, concrete, sound, and practical. If the Chinese delegation insisted upon discussing the principle, the Japanese delegation could not give up the idea of joint undertaking.

Dr. Koo said that he could assure the Japanese delegation that they would not be placed in any worse position. The Chinese proposition was to pay for the whole property, not half, as previously. He desired that the merits of the modified proposition should be recognized.

Mr. Hanihara suggested that the meeting should now adjourn. He added that, if he was not asking too much, he would like to have the substance of the Chinese proposition in writing, so that they might have a useful discussion at the next meeting.

Dr. Koo said that the Chinese delegation would be very glad to do so.

The press communiqué was agreed upon (Annex I) and the meeting adjourned at 5.30 p. m., until 3.15 p. m., next Monday.

WASHINGTON, D. C., *December 10, 1921.*

SJC-9.]

ANNEX I.

DECEMBER 10, 1921.

[For the press.]

The ninth meeting of the Chinese and Japanese delegates relative to the question of Shantung took place in the governing board room of the Pan American Union Building at 3.15 this afternoon. The question of salt fields and that of the Kiaochow-Tsinan Railway were discussed. Considerable progress has been made toward an understanding on the part of two delegations. The meeting adjourned until 3.15 p. m. next Monday.

TENTH MEETING.

The tenth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3.15 o'clock in the afternoon of Monday, December 12, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Tsong-Ou, Mr. Tsai, Mr. Tung-Fan Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. D. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. McMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir. John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

SALT INDUSTRY.

Mr. Hanihara said that, before entering into the question of the railway, he would desire his Chinese colleagues to enlighten him a little further as to the question of the salt industry. He understood that China would be prepared to give compensation to the Japanese people engaged in that industry in Shantung. He desired to know more concretely what the idea of the Chinese delegation was in making that offer. He wanted his Chinese friends to understand that the industry was not under Government control but was conducted by private individuals. Therefore, the rights and interests involved would have to be looked upon as vested rights and interests. If the Chinese plan were to be adopted, the Japanese Government would have to persuade those private enterprises to give up their business on adequate terms. First of all, the Japanese Government would

have to pay for the actual investments made by those people, and their expenses in winding up business as well as their losses from dissolving outstanding contracts. Moreover, it might be necessary that the loss of profits expected would also have to be compensated for. He should like to know whether the Chinese delegates had any concrete idea on these points. He asked that question, not because he and his colleagues agreed to the Chinese proposal, but because they wanted to recommend to the Japanese Government to give due consideration to the Chinese proposal when it was found reasonable and worthy of consideration. He would also be glad to be informed whether the Chinese Government were prepared to make the payment in cash or in some other form.

Dr. Sze replied that he had assured the Japanese delegates that fair compensation would be made, but that no material as to the details, such as the amount of investment, etc., was available. If, however, the Japanese delegates could advance any concrete proposal, the Chinese delegates would try to meet the Japanese wishes as far as possible.

Mr. Hanihara said that the Japanese position was to regard those private interests as vested rights and interests, but now the Japanese delegates desired to give careful consideration to the Chinese proposition. In order to do so, he found it necessary to ascertain the Chinese views on the points he had mentioned more in detail and in a more concrete form. The Japanese delegates would then give all possible consideration to the Chinese proposition and make recommendations to the Japanese Government accordingly.

Dr. Sze regretted that he had not detailed information at hand. He desired that the Japanese delegates would recommend to the Government to agree to the principle suggested by the Chinese delegates. In the meantime he and his colleagues would try for their part to obtain the necessary information.

Baron Shidehara thought that what Mr. Hanihara wished to ask was whether the Chinese, in taking over the salt industry conducted by the Japanese, would be prepared to pay not only for the actual investments made by those people but also the expense for the winding up of their business and their prospective profits.

Dr. Sze said that the term "profits" was very vague. It was not clear whether profits for 10 years, 5 years, or 1 year were meant.

Baron Shidehara asked whether the expenses involved in winding up their business would be included.

Dr. Sze said that that was too much a matter of detail. The Chinese delegates had received express instructions in the matter. He and his colleagues did not desire to make any promises which later they might find themselves lacking the power to make good.

Mr. Hanihara desired that there should be no misunderstanding of his question. He wanted to ask whether the Chinese delegates were prepared to pay compensation only for the actual investments or whether they were also prepared to pay for the winding up and other expenses which were usually paid when a transfer of a business took place.

Dr. Sze said that he had personally no experience in such transfer, and therefore could not tell. He was only able to say that the Chinese delegates could pledge themselves as to the matter of exportation of salt to Japan, either to the Government or to private indi-

viduals. He and his colleagues had to ask for further instructions as to other matters.

Mr. Hanihara repeated his question whether the Chinese were ready to compensate not only for the actual investments but for other legitimate interests.

Dr. Sze said that to his mind the Japanese engaged in salt industry knew that there was a Government monopoly system in China. They must also have known that Japanese military occupation was only of a temporary nature. Therefore he did not expect much trouble in letting those people understand their status. He was, however, ready to consult the Chinese Government on the matter, and he wanted that the Japanese delegates would also ascertain the views of the Japanese Government as to the principle suggested by the Chinese delegates. As for the details, they could later be arranged locally.

Mr. Hanihara said that in order to give consideration to the Chinese proposal it was necessary for the Japanese delegates first to know that a fair amount of compensation would be paid. He wondered whether he could understand that the Chinese Government would be ready to take into consideration not only the actual investment, -----.

Dr. Sze, intervening, asked whether Mr. Hanihara meant to include the expenses for winding up and the estimated amount of contingent profits.

Mr. Hanihara answer in the affirmative.

Dr. Sze said that he would like to know how much salt Japan wanted.

Mr. Hanihara said that he did not possess figures. He added that the export tax was another important point to be considered in connection with the salt industry.

Dr. Sze assured Mr. Hanihara that the Chinese delegates desired to be fair and reasonable.

It was then agreed that the question should further be discussed at a later meeting, and that the discussion of the railway question should be resumed.

THE QUESTION OF THE RAILWAY.

Dr. Sze said that the first proposition was that China should take over from Japan, immediately upon the coming into effect of the agreement, the Tsingtao-Tsinanfu Railway, all rolling stock, branches, and other appurtenances thereto. This transfer should be completed within six months from the date of ratification. It would take some time to complete the transfer of such a thing as a railway.

Mr. Hanihara inquired whether the idea of Dr. Sze was to fix a time limit to the transfer of the railway.

Dr. Sze replied that in order not to embarrass in any way the passenger and freight traffic, it would be necessary for China to take over the railway gradually. The transfer might be started immediately after the agreement took effect and be completed in six months or on whatever date they might be able to agree upon.

Mr. Hanihara said he was afraid that his Chinese friend was going too fast. It had not yet been agreed that the railway should

be handed over to China. The principle itself still remained to be decided.

Dr. Sze said that in assuming charge of the railway they would have to proceed step by step. To a certain extent the employees would have to be new. Certain dislocations would naturally be expected. That was the reason why he desired to have some arrangement on that point.

Mr. Hanihara said that he had understood that the Chinese delegation would give him and his colleagues the Chinese views in a concrete form.

Dr. Sze said that the most important part of the question was what China would have to pay. China desired to reimburse Japan to an amount equivalent to the amount of the set-off against what Japan had claimed for indemnity from Germany as represented by the appraised value of the road. The Chinese delegates had now understood that Japan was not to acquire the railway for nothing, and therefore were ready to pay the set-off decided upon by the reparation commission in Paris. China wanted to reimburse Japan to that amount.

Mr. Hanihara desired to ask a question, but wondered whether Dr. Sze would rather continue.

Dr. Sze continued and said that China would issue to the agreed amount bonds which would bear interest at the rate of 5 per cent per annum, payable semiannually. The redemption of these bonds should begin in the next year—or so many years to be agreed upon—after her taking charge of the railway. China further wished to reserve the right at any time, upon giving six months' notice, to redeem all or part of the outstanding bonds. It was possible, however, that there might be no necessity of bond issue at all.

Mr. Hanihara desired to ask a question. The first point was whether China was prepared to pay what Japan had to pay Germany.

Dr. Sze said that Baron Shidehara had said that Japan would get nothing out of the transaction, but, as a matter of fact, she would. In the meantime, his Japanese friends might have noticed in the newspapers that Germany had defaulted. That might not have direct influence upon the position of Japan in the question at issue, but in any case, Japan had the railway in her possession. It might be said that "a bird in the hand is worth two in the bush." Be that as it might, China might be able to make cash payment, but that was rather a side issue.

Mr. Hanihara said that that was not the point. What he desired to know was whether China would pay only what Japan would pay to Germany. According to the tentative arrangement in Paris, Japan had to pay 30,000,000 yen to Germany for the railway. He wondered if China was prepared to pay only that amount or would pay, in addition to that amount, what Japan claimed as fair compensation for the investment she had made in the railway.

Dr. Sze thought that Japan would be greatly benefited. Firstly, she would get the great satisfaction of the general settlement. That satisfaction alone would be quite sufficient. Secondly, on account of the unified system of railway, the facilities would be greatly increased. At present there were no direct connections between the Tsingtao-Tsinanfu Railway and the Tientsin-Pukow Railway, but when China took over the railway a through service would be made

possible and the transportation would be made cheaper. The merchants in Tsingtao, who were largely Japanese, would profit by the change, and the Japanese trade would receive no small measure of benefit. Those two considerations ought to be a source of great satisfaction to Japan. Moreover, Japan would not want China to pay such an amount as to make the railway overcapitalized.

Mr. Hanihara said that the point he was trying to make was this, that there were properties which were later acquired by Japan. According to the Chinese proposition, China would be prepared to pay just what Japan was to pay to Germany. He desired to know if China considered paying for the Japanese investments apart from that sum.

Dr. Sze said that ordinarily perhaps that might be the case, but a kind friend would not let his friend pay more than he had paid. China should be required to pay just what Japan would have to pay.

Dr. Koo said that he desired to make one point clear. The railway was now under the military occupation of Japan, but China could not admit that Japan had rightfully acquired that railway. He desired to look at the situation from the point of view of fact. He did not quite follow why the Japanese delegates asked China to pay something over and above the set-off which Japan was to pay to Germany. China would take over the railway at its appraised value. Germany's claim against Japan for the railway had been made because Japan was in actual possession of it. But, if China was to admit that that property was lawfully acquired by Japan, they would be placed in a very intricate and difficult position. So he desired to set aside the legal point from consideration. Then the point would not arise whether Japan should receive anything over and above what she had to pay to Germany.

Mr. Hanihara said that both delegations had agreed to set aside the treaty and to treat facts as they were. Japan was in actual possession of the railway, and in coming into that possession would have to make a payment to Germany, and, moreover, Japanese capital had since been invested. If China would ask for the transfer of the railway to herself, it would only be fair to ask of her the payment of an adequate amount for the improvements made with Japanese capital. One further point was that the amount tentatively agreed upon by the reparation commission was not a fair valuation of the railway itself. In making that valuation other things were at the same time taken into account. The amount was not what Japan alone decided, but it was agreed upon at the reparation commission. And, moreover, the claim was made against Japan rather than against Germany. The arrangement was that Japan was to pay something like 30,000,000 yen to Germany, but that was not the actual value of the railway at all, the question of Japanese investments not having been taken into account.

Dr. Sze asked how much Japan had spent by way of investment.

Mr. Hanihara said that he had not the exact figures. He again asked whether China was prepared to pay only the amount Japan was going to pay to Germany. If so, that proposition was unacceptable.

Dr. Koo said that both delegations appeared really to have agreed in substance. The Japanese delegates asked -----.

Mr. Hanihara said that they had not asked anything. Only, he had been trying to enlighten himself as to the exact nature of the Chinese proposition. He hoped that he would not be understood as having abandoned the original position which he had been taking and as to which his delegation had had explicit instructions. The earnest desire of the Japanese delegation, however, was to come to an early and fair settlement of the question.

Dr. Koo asked if the Japanese point of view was that the money spent on the railway during the military occupation should be included in the valuation, even if that was not considered in the decision arrived at by the reparation commission in Europe.

Mr. Hanihara said that that was just so.

Dr. Koo said that was a question of fact. China had no desire to object to reimbursing Japan for such money as had actually been spent for the permanent improvements of the line and the rolling stock. As a fair counterpart, however, profits should then be taken into consideration; and, further, a small point was that the Chinese shares in the railway should be taken note of in adjusting the accounts. So far as the principle was concerned, China was prepared to consider the question of the Japanese investments, provided that the revenue from the railway would be credited to the line itself. They should be set off one against the other. It might, of course, turn out in China's favor, but, on the contrary, it might also turn out in Japan's favor.

Mr. Hanihara said that, as to the question of profits, he did not quite agree. As to the question of the bond issue by the Chinese Government, he desired to know about the security for redemption, about which his Chinese friends mentioned nothing. He wanted to know whether China had any proposal on that point.

Dr. Koo replied that the question of security for the bonds had never occurred to him and his colleagues as being an essential point. He desired to know whether his Japanese colleagues thought it important.

Mr. Hanihara said he did not even know whether the Japanese Government would approve the whole proposition. It might be of little use to go into these points after all. However, in the ordinary course of business, an essential point in the flotation of bonds would be the security for redemption.

Dr. Koo would have thought that the general credit of the Government was sufficient, but if the Japanese delegates deemed it an important aspect, he and his colleagues had no hesitation in providing an excellent security for these bonds. He desired to be informed whether the Shantung Railway was a paying business.

Mr. Hanihara replied that his impression was that that was a paying business, although he did not know personally. He had been informed, however, that Germany did not leave the railway in working order.

Dr. Koo said that if the question of security was regarded as important they would try to arrive at some conclusion as to what would be the best security. He suggested that possibly the revenue of the railway itself would be good security.

Mr. Hanihara said that he was speaking for himself; he did not even know whether his colleagues would agree. But he considered

the question of the security as very important. He would almost say that it was imperative to know what security would be provided.

Dr. Koo said that at present the Chinese delegation were not prepared to go very far into that question, because it had not occurred to them that that point would be raised. However, possibly the revenue of the railway itself would be most suitable. That was the case with the Shanghai-Hangchow-Ningpo Railway, which was in paying order. His colleague, Dr. Sze, had just told him that the surplus profit of the Peking-Mukden Railway was also assigned as security for that railway. Such practice had proven to be very satisfactory, and the bonds were quoted very high in the market. In mentioning the railway revenues, however, he and his colleagues had no desire to commit themselves specifically, but they were prepared to offer some good and safe security.

Dr. Sze asked the opinion of Sir John Jordan as to the Shanghai-Hangchow-Ningpo Railway.

Sir John replied that that was quite satisfactory and that there were no complaints at all.

Baron Shidehara said that he desired to ask a question. The Chinese delegates had just proposed that the net profit should be deducted from the value of the railway. If he had understood them correctly, their idea seemed to rest upon the assumption that China had been the legal owner of the railway since her declaration of war against Germany and that Japan had been operating the railway as an agent of China; because if Japan had been operating the railway on her own account and not as an agent of China he did not see why Japan should pass over to China whatever profit or loss the operation of the railway might have brought to Japan.

Dr. Koo said that the point raised appeared to be whether Japan was or was not an agent of China in the operation of the railway. That might or might not be the case. He did not desire to enter into that discussion.

Baron Shidehara asked why such an account should be made if Japan was not an agent of China.

Dr. Koo said that the Chinese delegation had understood the day before that some expenditure had been made by the Japanese Government and to-day they were informed that that investment had been made for improvements. In the normal course of things the revenue of the railway would first be assigned to defray the cost of operation, including salaries, and if something were left over as profit that might be used for the improvements of the line. He understood that there was a separation of account between the expenditure and the revenue in the Japanese budget—salaries, for instance—being paid out of the central treasury direct. But so far as the net revenue was concerned he thought it only fair that that should be credited to the railway and set off against such expenditures as the investments in the form of improvements.

Baron Shidehara said that while he might be slow of understanding he couldn't make Dr. Koo's point clear to himself. Mr. Hanihara had mentioned the expenditure Japan had made upon the railway, probably because the result of that expenditure had formed part of the railway property. They were here going to decide what should be done with the railway—whether it should be handed over to China or be made into a Sino-Japanese joint enterprise. They

were not going back to the past. He couldn't see clearly why an account of the past profit and loss of the railway should be rendered to China.

Dr. Koo said that if the cost of operation and all expenses, such as the salaries and wages of the railway officials and employees, had been paid out of the railway revenue there would be no question of reimbursement of expenditure.

Baron Shidehara said that according to the Chinese proposal China would get all the railway materials and the rolling stock, besides the railway itself. She would get the whole property and the whole value. He didn't see why there should be any question of past profits or losses. If they got the property, they ought to pay for it; if they got value created by others, they ought to pay for that, too.

Dr. Koo asked whether expenses of rolling stock, etc., as well as those involved in the improvement made upon the railway were paid out of the railway revenues or from the Government treasury.

Baron Shidehara observed that it didn't matter how those expenses had been paid. China got the property; if it was worth, say, 10,000,000 yen, she should pay it. The situation was this, that the railway having been agreed on all hands to be the private property of the Germans China had no right to confiscate it.

Dr. Koo understood, however, that in the appraisal of the railway taken in connection with the reparation question at Paris the improvements upon the railway had been left out.

Baron Shidehara said that Japan, in acquiring the railway, had to reimburse the shares held by Germans. She had, moreover, heavily invested in rolling stock, etc. The valuation taken by the reparation commission was in fact of little account, since Japan had to pay, not the German Government, but private individuals of Germany.

Dr. Koo asked if some data of improvements made by Japan during her occupation could be given.

Baron Shidehara said that figures could be given on that point, but that the question was of principle. He could not see why the question of past profits and losses should be taken up. Unless upon the assumption that China was the legal owner of the railway property and Japan had been using that property merely as an agent he could not understand why Japan should be asked to account for profits and losses.

Dr. Koo said that usually profits of an enterprise belonged to shareholders.

Baron Shidehara said that since Japan had taken possession of the railway she was running it on her own account and on her own responsibility and not as an agent either of Germany or of China.

Dr. Koo said he thought the surplus profits still stayed with the railway. Under normal conditions the profits would be considered as belonging to the railway.

Baron Shidehara answered that there was no question of normal conditions. Japan had taken possession of the railway as an act of war as part of her military operations.

Dr. Koo inquired if payment for the improvements had not been asked by the Japanese delegation.

Baron Shidehara said that it was because they formed part of the value of the railway. Supposing the railway was worth 30,000,000 yen under the German régime, Japan had added much to that value both with rolling stock and various improvements.

Dr. Koo asked if he was to understand that Japan, during her military occupation, was entitled to the profits of the railway and that such improvements as she had made upon it should not have been paid out of those profits.

Baron Shidehara said it was entirely another question. The important point was that China was going to get the benefit of the improvements.

Sir John Jordan asked Dr. Koo if he could not look at the question from the angle of what China was to get.

Dr. Sze asked if Baron Shidehara counted among the improvements the repair which might have been necessitated by willful acts of destruction.

Baron Shidehara said that Dr. Sze apparently had in mind the acts of war and that in his opinion the repair of damages caused by the Germans' acts of war could perhaps be called improvement.

Dr. Koo understood Japan's position to be that by reason of her military occupation she was entitled to operate the railway and to reap the benefits of that operation. In his opinion that privilege necessarily carried with it the obligation on Japan's part to maintain the railway in good condition. In making expenditure on the railway, she was merely discharging that obligation.

Baron Shidehara said he couldn't see how it could be her obligation.

Dr. Sze said that whatever improvements Japan might have made had helped Japan to make greater profit out of the railway. It could not very well be said that she would keep all the profit and at the same time make others pay for the improvements.

Baron Shidehara said that Dr. Sze's way of reasoning was not clear to him. To illustrate, Germany had had an article which Japan had obtained from her. Japan had herself made another article of the same nature. Now, China wanted to get both of these. Was it not natural that China should be asked to pay for both of them?

Dr. Sze said that the duplication cost Japan so much more money but that at the same time it would give her corresponding increase of profits. Extra expenditure meant extra profit. Japan could not keep all the profits and make China pay for the improvements.

Baron Shidehara said that Japan was operating the railway on her own account. She would naturally keep the profits or bear the losses. It was her property; it stood to reason that China should pay for the whole value if she wanted to acquire it.

Dr. Sze insisted that Japan could not make China pay for what helped her make money.

Mr. Hanihara said he doubted if he could better explain the situation than Baron Shidehara, but that he would give an illustration. Suppose A had owned the railway between Washington and Baltimore and had transferred it to B for \$10,000,000. B had made improvements upon the property, reaping, of course, profits out of the improvements. Now, imagine that after five years A should propose to B to repurchase the railway, would A say to B, "You have made profits out of the railway. The amount of your profits should be

deducted from whatever value may have been added to the railway on account of your improvements. Suppose your profits exceed the cost of your improvements, you will deduct that surplus from the \$10,000,000 you paid me?"

Dr. Sze said that it all depended upon circumstances, and that the proper thing to be done would be to let experts look into the matter of the value.

Mr. Hanihara said that he was talking only about profit.

Dr. Sze said that the original Chinese proposition was to pay to the amount of half the value of the railway, while the present plan was to pay for the whole value. That would mean a hundred per cent more.

Baron Shidehara asked if there was really any difference between the two plans.

Dr. Sze said that under the second China would pay for everything, minus profits and the sum of the shares held by Chinese.

Baron Shidehara asked whether, when he said the whole value minus profits and the Chinese shares, he meant not simply the amount of money to be paid to Germany but the whole value of the railway. What if there were losses?

Dr. Sze said that China was willing to take that chance.

Baron Shidehara said that the situation was now clear to him. He had thought Japan was to get no payment for what she had spent.

Dr. Koo said that she would be paid only what had been defrayed out of her treasury and also for the cost of improvements. The Chinese delegation were trying to agree in principle to the Japanese point of view.

Baron Shidehara said that the Japanese delegation still believed in the fairness and justice of the original Japanese proposal, but that if any suitable alternative plan could be worked out they would be ready to recommend it to their Government for consideration and approval. Unless, and until such an alternative plan should be offered, it was impossible for them to commit themselves to the scrapping of their original plan, which had already been agreed to by the Chinese Government in 1918. If his Chinese colleagues should offer any suggestion, the Japanese delegation would be quite ready to take it up, and if they found it fair and suitable they would submit it to Tokyo for approval. In the meantime they had to reserve their original plan.

Dr. Koo asked in what way Baron Shidehara thought the Chinese plan lacking.

Baron Shidehara said that the situation was this, that the Japanese Government proceeded from the assumption that the railway was her property, having been acquired from Germany. China had made no arrangement with Germany and was therefore not in a position to claim anything in regard to the railway. Of course, China could not confiscate it on the ground of the belligerent state that had existed between her and Germany because it was considered as private property of the Germans. He was not criticizing the Chinese plan; he was only trying to make himself sure of the meaning of the Chinese proposal. But when it was said that the profit of the railway should be deducted from the amount of its value it was hard for him, in view of what was stated above, to see why such deduction should be made.

Dr. Koo said he understood that the Japanese delegation considered the railway as Japan's property. It was not necessary for him to state the Chinese view of that. The Chinese Government, however, had the same right to their opinion that the Japanese Government had to theirs. They could not share the Japanese view in this matter.

Baron Shidehara asked if the railway was considered as a Chinese property.

Dr. Koo said that it was regarded as a Sino-German joint property, but that it was a question he would rather not discuss now.

Baron Shidehara said that the status of the railway was an important point. If they started from the assumption that the railway was a Chinese property there would be no doubt of the fairness of the Chinese proposal. Japan would have no right to interfere in this question.

Dr. Koo said that the very fact that discussions were being had by the two delegations showed that the status of the railway was in doubt.

Baron Shidehara said that they were only going to fix its future status.

Dr. Koo said that that was why they had better leave out the question of the past. Japan wanted to hand it over to China, and China wanted to take it up.

Baron Shidehara asked why, then, past profits were mentioned.

Dr. Koo said that the Japanese delegation had mentioned salaries and improvements. They were prepared to meet the Japanese demand as far as possible, and therefore they desired to have figures concerning the profits and the improvements of the railway.

Mr. Hanihara said that the figures concerning the profits had to be referred to Tokyo, but those concerning expenditure could be given right here.

Baron Shidehara said that the question of salaries was immaterial; they were not an important item of the expenses. He supposed that it was the net profit that was wanted by the Chinese delegation. That could, of course, be obtained by deducting gross expenditure from gross profits.

Dr. Koo said that he should be glad to drop the question of salaries and wages; these were generally paid from the railway revenue.

Baron Shidehara said they represented only a small part of the railway expenditure. In any case they were things of the past. If China was going to get the whole ownership of the railway, it would seem only fair that she should pay the whole value without reference to profit or loss.

Dr. Koo asked if improvements were included in that "whole value" and if expenses, salaries, and all that were to be left out of consideration: in other words, if what was meant was the value of the railway as it stood to-day.

Baron Shidehara answered in the affirmative.

Mr. Hanihara said that after two days' discussion he thought they understood each other's position better. After a deliberate examination of the Chinese proposal the Japanese delegation might offer their observation at the succeeding meeting.

The Chinese delegation summarized their revised proposal in the following way:

1. China to take over from Japan immediately upon the coming into effect of this agreement the Tsingtao-Tsinan Railway, its branches, all the rolling stock, equipments, etc., and all other appurtenances thereto. This transfer shall be completed within six months after the date of ratification.

2. China to reimburse Japan to an amount equivalent to the amount of set-off which Japan claims against Germany for indemnity, as represented by the appraised value of the road and its appurtenances, minus the Chinese capital to the amount of 360,000 marks gold and all interim profits during the period of Japanese occupation. China will issue to the agreed amount bonds which will receive interest at the rate of 5 per cent per annum, payable semiannually. The redemption of these bonds shall begin on the year after taking charge of the railway, etc., by China by annual drawings of one—th of the total number of bonds issued; the last drawing payment shall be completed in the year -----.

China at any time, upon giving six months' notice, may redeem all or any part of the outstanding bonds.

The press communiqué was agreed upon (Annex I) and the meeting adjourned at 5.30 p. m. until 3 p. m. Tuesday.

WASHINGTON, D. C., *December 12, 1921.*

SJC-10.]

ANNEX I.

DECEMBER 12, 1921.

[For the press.]

The tenth meeting of the Chinese and Japanese delegates relative to the question of Shantung took place in the governing board room of the Pan American Union Building. The question of Kiaochow-Tsinan Railway was discussed. The meeting adjourned at 5.15 p. m. until 3 o'clock to-morrow afternoon.

ELEVENTH MEETING.

The eleventh meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3 o'clock in the afternoon of Tuesday, December 13, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Tsong-Ou, Mr. Tsai, Mr. Tung-Fan Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

THE QUESTION OF THE RAILWAY.

Baron Shidehara desired to make observations on the more important features of the Chinese counterproposal respecting the disposition of the Shantung Railway, as follows:

"1. It is understood that the question of mines appurtenant to the railway may be set apart for separate consideration.

"2. The value of the Shantung Railway properties to be credited to Germany in the reparation account under the treaty of Versailles takes into account only the value of such properties as were left behind by the Germans. It does not represent the whole value of the said properties as they stand at present. It is presumed that it is not the intention of the Chinese delegation to propose that, in taking over the entire railway properties from Japan, China is to pay to Japan only for a portion of their actual value. Should it be agreed that the entire railway properties be handed over to China, it seems only fair that she should pay for whatever they are actually worth.

"3. Amount of money to be credited to Germany in the reparation account in relation to the Shantung Railway is to cover indemnification to all the shareholders of the railway company. It is not possible for Japan to make any special agreement with China which would place Chinese shareholders of the company on a different footing from those of other nationalities and which would involve modifications in the existing arrangement under the treaty of Versailles.

"4. The railway has hitherto been operated by Japan on her own account and responsibility. It will be admitted that China is not the legal owner of the railway until an agreement to that effect shall have been made, and it seems evident that Japan can not properly be called upon to turn over to China whatever profits or losses may have been caused to Japan during her administration of the railway.

"5. It is extremely unlikely that the money market of any country will be ready for the present to provide a loan to China to cover the payment now proposed, unless the loan agreement is formulated on the basis of the terms embodied in railway loan agreements of comparatively recent dates which China has entered into with various foreign capitalists.

"The foregoing observations are made entirely without prejudice to Japan's original plan of a joint enterprise of the railway."

Dr. Sze thought that as to the proposition in the first paragraph the Chinese delegation was ready to agree. The mines would be considered separately from the railway itself. As to paragraph 2, he desired to ask what was meant by "the entire railway properties." When they were taking up the question of public properties, it was agreed that the wharves—Wharf No. 3, particularly—and warehouses would be considered in conjunction with the railway rather than under public properties. He wondered whether Japan was going to make China pay for those wharves, etc.

Baron Shidehara replied that it was not the intention of the Japanese Government to ask payment from China for these wharves, warehouses, etc. He didn't know, however, whether any improvements had been made upon them. If improvements had been made on the wharves, etc., it would be only fair that China should be

required to pay for their value. To the extent that Japan had received from Germany, she would hand over to China without payment, but to the extent that Japanese capital had been expended for improvements, she would require China to make reimbursement. That would be the principle covering warehouses, etc.

Dr. Sze asked what Japan was going to do with certain things which had been put up; for instance, the barracks for soldiers and the wireless stations.

Baron Shidehara replied that they would be handed over to China.

Dr. Sze asked how the valuation of those things was to be made.

Baron Shidehara replied that it would be carried out on the same principle as the railway itself.

Dr. Sze observed that things of that nature were sometimes of little or no use to the Chinese. The railway could be operated at a profit, but China might not be able to utilize at all, or to the full extent, establishments like barracks or wireless stations.

Baron Shidehara remarked that those barracks might be of much use to China. The Chinese Government were going to organize a police force to safeguard the railway. He presumed that those buildings would be suitable for their use.

Dr. Sze said that during the German days there were some barracks which might be sufficient for the use of the police force; they might not need any additional barracks set up by the Japanese. He was not sure whether China could utilize those buildings to the full extent.

Baron Shidehara said he was not personally informed as to the size of those barracks, but such details could easily be worked out by the commissioners on the spot. They could find out whether the buildings were of any value.

Dr. Sze said that the reason he had referred to that question was because when the question of public properties was under discussion they agreed that the depreciation and the continuing value would be taken into consideration.

Baron Shidehara replied that those considerations would certainly be weighed in making the valuation, but they could be considered later.

Dr. Sze desired to make it clear to himself whether Baron Shidehara meant that as to Wharf No. 3 only the payment for the improvements was required.

Baron Shidehara replied in the affirmative.

Dr. Sze inquired about the wireless stations set up during the period of the military occupation.

Baron Shidehara replied that with regard to the wireless station in Tsinan he could say that Japan was ready to hand it over to China. As to the one at Tsingtao, however, he desired to have a few days before he made a definite answer. The Government instructions on that point were not explicit and there were certain phases to which he had to give further consideration.

Dr. Sze said that those things were more or less connected with the troops. If China should be able to make use of them, they would be glad to take them over, but dismantling itself would mean some expenditure and China desired to make sure about the usefulness of the wireless stations. Another point he desired to make clear was about

the expenditure which Japan had made, more in fulfillment of the Anglo-Japanese alliance than in connection with the railway. He desired to know what was the Japanese proposition as to that class of expenditure.

Baron Shidehara desired to know more specifically what Dr. Sze had in view.

Dr. Sze said that his attention had been called to that phase of the question by one of the Chinese experts. Some establishments might not have direct connection with the railway, but rather with the military movements and the protection of the railway. He had nothing particular in mind, but wireless stations might come under that category.

Baron Shidehara asked if Dr. Sze had not said something about the Anglo-Japanese alliance. He supposed that the terms of the alliance had no connection whatever with the establishments in Shantung.

Dr. Sze said that the Chinese delegation had thought that it was under the terms of that alliance that Japan attacked Tsingtao. There might be some establishments which had no direct connection with the railway. For instance, the installation of the wireless stations had possibly been a military measure and had no direct connection with the railway. There might also be some few telephones, or things of a like nature, established for war purposes.

Baron Shidehara said that that question had never occurred to him.

Dr. Sze asked whether Japan desired China to pay for locomotives and cars which had replaced old locomotives and old cars.

Baron Shidehara replied that his point was, that China should pay for whatever the properties were actually worth. As to the details, it was very difficult for him to answer offhand. He wondered whether Dr. Sze meant by old cars and old locomotives those that were of no value—whether he meant cars no longer in use.

Dr. Sze said that they might have been removed. He thought, as a general principle, deduction ought to be made for things taken away.

Baron Shidehara assured Dr. Sze that it was not his intention to ask for payment for anything no longer of any value.

Dr. Sze asked in what manner the actual value of those things was to be ascertained.

Baron Shidehara replied that that was a very difficult question to answer. That was a practical question.

Dr. Sze thought that the definition of that point was very important. Unless they had some definite method of appraisal they would have no guiding principle along which to proceed.

Baron Shidehara asked whether Dr. Sze had in mind the question of depreciation.

Dr. Sze replied that that was so.

Baron Shidehara said that that would be taken into consideration.

Dr. Sze observed that Japan had been in occupation of Kiaochow since 1915. Seven years had since elapsed, and it would be only fair that depreciation and continuing value should be taken into consideration.

Baron Shidehara agreed.

Dr. Sze asked what Baron Shidehara had in mind as to the valuation of the railroad itself; what he meant by the "actual value."

Baron Shidehara replied that he thought that those questions could only be decided by the commissioners to be appointed.

Dr. Sze said so far as the improvements were concerned he agreed to the views of Baron Shidehara. He desired to get his opinion about the road itself.

Baron Shidehara asked whether Dr. Sze could suggest any principle which would govern such phases of the question.

Dr. Sze questioned again about the road.

Baron Shidehara asked whether Dr. Sze meant the railway tracks.

Dr. Sze replied that he meant what the Germans had left when Japan took the railway over.

Baron Shidehara asked whether any principle could be suggested.

Dr. Sze said if the Japanese delegation could supply a list of all the improvements made by the Japanese the matter would be simplified, but he understood that the Japanese delegation was not in possession of the necessary data. He supposed that the guiding principle might be something like this: China to pay Japan the value of the railway determined by the reparation commission, plus the value of the improvements, taking into consideration the depreciation and the continuing value. But he added that the value of the improvements should in no case exceed 10 per cent of the reparation value of the railway. He said that he had to have some idea about the amount China would eventually have to pay to Japan. If China had to issue loans in order to make that payment she would have to make arrangements for their flotation. That was the reason why he desired to have some limitation as to the amount to be paid for improvements.

Baron Shidehara remarked that to limit the amount to 10 per cent of the reparation value of the railway was somewhat arbitrary.

Dr. Sze admitted that that was rather arbitrary, but he could not do otherwise, as he had no data to go by. He wished he had the list of the improvements, so that he could have a better idea as to the amount to be paid by China.

Baron Shidehara said that Dr. Sze's suggestion was that in determining the actual value of the railway they were to take the reparation amount plus the value of improvements minus depreciation. So much was quite fair. China need not pay for such properties as had no longer any use or value, but as to the 10 per cent limitation, that was too arbitrary. He had at that moment no idea as to what the value of the improvements would amount to, but the principle of arbitrary limitation could not be accepted.

Dr. Sze said that if he could get some idea about the approximate value of the improvements in two or three days that would help him a good deal in making loan arrangements. As a matter of fact, the Chinese delegation had had some offers. That was the reason why he and his colleagues were anxious to ascertain what the size of the loan would be if they had to go about the flotation. He admitted the arbitrariness of the 10 per cent proposition, but if the Japanese delegation could furnish him any data as to the point in question it would be very useful.

Baron Shidehara answered that the Japanese delegation might perhaps obtain some rough estimate of the value of the improvements, but it would be very difficult to ascertain the amount of depreciation. As to the value of improvements, he would ask Tokyo for information.

Dr. Sze said that that would be of great help to the Chinese delegation and desired that a telegraphic inquiry should be sent to Tokyo. He said that there was one point which was particularly difficult for the Chinese delegation to explain to their people at home. They would be blamed by their people for not having made satisfactory arrangement for Chinese shares, for what China had put in the railway, while they had consented to so many arrangements necessitating payment of money by China. He thought Japan simply had to credit to Germany so much the less.

Baron Shidehara said it was actually difficult for Japan to accede to the Chinese desire. There were, besides Chinese shares, those in the hands of other nationals. If any special agreement was made with China some arrangement had to be made for them also.

Dr. Sze thought that Japan could excuse herself on the plea of the different footing of the Chinese. He hoped the specially difficult position of the Chinese delegation would be appreciated by the Japanese colleagues. The question was of only small value financially. But its sentimental value could not be overlooked.

Baron Shidehara said that he appreciated the position of the Chinese delegation, but that he thought it was difficult for Japan to satisfy China in that respect. The German Government had already agreed that it should make arrangement with other nationals interested in the Shantung Railway. The matter would involve the question of the modification of the principle which had been decided upon at the reparation commission and in the treaty of Versailles. Any special arrangement made with China would, of course, become known to all the world. He was afraid the Chinese desire might be difficult to be met. In any case it was not a very important question.

Dr. Sze said that Dr. Koo had just drafted a formula in regard to the railway properties, reading as follows:

"China to pay the actual value of the Shantung Railway properties, as represented by the reparation commission figures, plus the actual amount, minus depreciation, expended by Japan, for such permanent improvements on the roadbed and in rolling stock and equipment as were effected by Japan during the period of her military occupation."

Mr. Hanihara inquired if the word "equipment" could include reclaimed land, wharves, warehouses, and such other properties as were used in connection with the railway.

Dr. Sze asked if those properties could not be treated according to the principle adopted in connection with the public properties.

Mr. Hanihara said that "equipment" might mean much, then again it might mean nothing.

Baron Shidehara did not think that reclaimed land could be included in "equipment."

Dr. Sze wondered if that did not belong to public property.

Baron Shidehara said that there were tracts of land reclaimed for the purpose of the railway. He thought there had been a plan to construct workshops, which would involve the reclamation of a large tract of land.

Mr. Hanihara said there were many houses built in connection with the operation of the railway. Those, he thought, ought to be included among the railway properties.

Dr. Sze suggested that some words might be inserted in the formula to cover the point raised by Mr. Hanihara.

Baron Shidehara observed that instead of enumerating all these different kinds of railway properties it would be better simply to say "railway properties." He would further suggest to use some such words as "additions to the railway properties" somewhere.

Dr. Koo said that he understood that reparation value was not the whole value. He wished to know what it represented, whether it was the value of the railway properties as they had been left by the Germans in 1914.

Baron Shidehara said that it was. The railway properties, as represented by the figures of the reparation commission, had formerly belonged to Germany, but the improvements since made were Japanese property. These latter should not have come up before the reparation commission.

Dr. Koo said that, that being the case, the value the reparation commission had had in view must naturally have depreciated through seven years' use of the property.

Baron Shidehara said that while it was possible that there had been some depreciation, it must be mentioned at the same time that the value of the railway properties had, as a matter of fact, greatly enhanced during those years. It had been constantly going up. Certainly the railway properties could not at present be acquired at the price prevailing before the war.

Dr. Sze said that that phase of the matter could be considered along with the question of appreciation. He thought that it might be appropriate to have the phrase "subject to the principle of continuing value" at the end of the formula discussed a moment ago.

Baron Shidehara said that they had already agreed as to "actual value." The meaning was to his mind pretty clear.

Dr. Koo inquired if he was to understand that only those properties would be considered which were of continuing value to China.

Baron Shidehara observed that, although a minor point, the words "military occupation" might better be changed to "administration of the railway."

Dr. Koo agreed.

Dr. Sze said that he would like to have it quoted in the minutes that only such properties as were of continuing value to China would be considered.

Baron Shidehara agreed.

Dr. Sze here read the amended formula as follows:

"China to pay the actual value of the Shantung railway properties as represented by the reparation commission figure plus the actual amount, minus depreciation, that was expended for such permanent improvements on or additions to the railway properties as were effected by Japan during the period of her administration of the railway."

Dr. Sze, continuing, inquired whether the reparation figures were based on the agreement whereby Germany had handed over the railway to Japan, and if Japan had received an inventory of the properties.

Baron Shidehara said he presumed so.

Dr. Sze said that they had now settled the first and second points of Baron Shidehara's observations. As to the third point, he wished

the Japanese delegation would see their way clear to take the matter into consideration once more.

Baron Shidehara answered that at present he did not see how the Chinese desire could be met.

Dr. Sze said that as to the fourth paragraph the Chinese delegation met the Japanese point.

In regard to the fifth paragraph. Dr. Sze admitted that the terms of the proposed loan ought perhaps to be a little different from other loans. Five per cent was the rate of interest of many Chinese railway loans. He quite realized that the money market to-day was entirely different, but still he noticed that the allied war loans bore 5 per cent interest. That was why the same rate of interest had been offered in spite of the changed condition of the money market. It must be pointed out, however, that the Chinese Government might be able to make cash payment and that the plan proposed by China might, after all, mean nothing.

Baron Shidehara said that it was not his intention to propose a loan to be furnished by the Japanese Government. The Japanese Government could not do it, for all loans had to be approved by the Diet. It was impossible for him to commit the Government in that respect. His idea was only that perhaps Japanese private financiers might take up the loan.

Dr. Sze said that the Chinese delegation would be placed in a difficult position if they could not tell his people anything definite about the terms of the loan. Of course, they would have to ask about the details of the loan before they made any offer.

Baron Shidehara said it was impossible to consider any loan by the Japanese Government.

Dr. Sze said that possibly bonds might be issued to the Japanese Government, as in the case of the Canton-Hankow Railway.

Baron Shidehara said that it was impossible for the Japanese Government to advance money. Apparently it was Dr. Sze's idea that the Japanese Government should buy those bonds. That was also impossible for the Japanese Government, unless with the authorization of the Diet.

Dr. Sze suggested to leave paragraph 5 to later consideration.

Dr. Koo said that the question of a loan was not coming until it was found impossible for the Chinese Government to raise the money needed for the compensation of the railway properties. There was no immediate necessity to settle the question.

Mr. Hanihara said that Baron Shidehara's observations had not been made as a proposition. The Japanese delegation were only trying to enlighten themselves on the various points of the Chinese proposition.

Dr. Sze suggested that what had been agreed upon so far might be summarized.

Dr. Koo said that, in other words, there had been a practical and substantial agreement upon the question of paying compensation for the railway properties. Might the Chinese delegation not consider their proposal as agreed to in substance and in principle?

Mr. Hanihara said that the Chinese delegation had obviously misunderstood the nature of Baron Shidehara's observation. The Japanese delegation had not proposed anything. The closing sen-

tence of the baron's statement ought to have been enough to prevent any misunderstanding. If there had been any agreement reached, it was only on the meaning of the Chinese proposal. The Japanese delegation still stuck to their original proposal. They were only trying to see if the Chinese counterproposal was acceptable, so that, if it was acceptable, it might be referred to Tokio.

Dr. Sze wondered if they had not been negotiating on the five points of the Japanese proposal.

Baron Shidehara said it was not a proposal by any means; that the original Japanese proposal still stood good.

Dr. Koo said that as a matter of fact they had reached an understanding on the various points of the Chinese proposition. There had been a practical agreement on the broad principle of the disposition of the railway properties. They now knew how to proceed further from that principle.

Mr. Hanihara said that evidently his Chinese friends seemed to start from the assumption that the Japanese delegation had agreed to turn over the railway to China, but that they had not done anything of the sort. They had simply been studying the proposition laid before them. He hoped there would be no misunderstanding.

Dr. Koo said that, to put it another way, the Chinese delegation had, in deference to the views expressed by Baron Shidehara, been making concession after concession, until the Chinese proposal had now been made acceptable to the Japanese delegation. If they were prepared to abandon their plan of joint enterprise, they would find the method proposed by China agreeable. They had now before them two acceptable things—the joint enterprise and compensation for the railway properties. The first was not acceptable to China, while the second was acceptable to both.

Mr. Hanihara emphatically denied that the Japanese delegation had said the Chinese proposal was acceptable.

Dr. Koo said that the Chinese delegation had all along been making concessions and modifications in order to make their proposals acceptable to Japan. He asked whether, in order to mark a step in their discussions, it could not be considered as agreed that the railway properties could be disposed of on the basis of what they had agreed to during the day's discussion.

Mr. Hanihara said that they were still at a stage where they were only trying to find out a common ground, for if both sides stuck to their original position there would be no adjustment.

Baron Shidehara said that the progress so far made amounted to this—that they both made their positions entirely clear to each other. But there was no agreement. That was the present stage of progress.

Dr. Sze said that not only had the Chinese position been made clear, but many modifications of that position had been made to meet the points of Baron Shidehara's observation.

Baron Shidehara said that the Chinese counterproposal had been made clear by the questions put by the Japanese delegation, but that there were still certain features which had not yet been quite clarified.

Dr. Wang inquired how the Chinese proposal, if not accepted, had impressed Baron Shidehara.

Baron Shidehara answered that, as said yesterday, his mind was open to any suggestion, but that he could not say that he was either in favor of or against the proposal.

Dr. Koo asked if he could not say how to-day's Chinese proposition seemed to him.

Mr. Hanihara said that it was very necessary for the two delegations to approach and solve the so-called "Shantung question" as a whole. The railway question was surely the most difficult of all the questions to be discussed, but, at the same time, they should not lose sight of the several other questions which had likewise to be solved if they were to reach a satisfactory settlement. As he had suggested before, it would be better, in order to accelerate the progress of the discussion, that other matters which might be susceptible of easier solution were now taken up, and they could come back to this question of the railway after adjusting those easier points. Then they could more easily come to an agreement on the question of the railway from the perspective of the entire Shantung question.

Dr. Sze said that he feared that the criticism at home and elsewhere would be that the delegates had once discussed the question of the railway, and after taking an adjournment, came back to the same question; and that they were now going again to adjourn. It would be very hard to make an explanation to the Chinese public. While he appreciated the Japanese standpoint that it was necessary to have some time to consider, he feared that he could not agree to proceed to another question.

Mr. Hanihara said that from his strictly personal point of view the best method of discussion would be to proceed not too hurriedly. He thought the railway question was the most difficult of all the questions to be solved in connection with the Shantung question. To be perfectly frank, he still believed that the original proposition of a joint undertaking was a very fair and generous offer, although the Chinese delegates seemed to be far from being satisfied with that. In the circumstances, if they went on discussing the railway question without knowing what might be the final adjustments of other matters, it would be difficult to find the ground for compromise to which, after all, they had to come in order to reach an agreement. These other questions, while they might be of minor importance, formed important parts of the entire question, and they might be more easily solved than the question of the railway. When they were composed, the railway question would become the only remaining big question. The negotiators would be able to see where they stood and exercise their ingenuity and effort in such a manner as to find out a settlement acceptable to both. The question could be approached as a whole and settlement could be reached accordingly. In that way they would know in what way they could come a step forward in conciliation and compromise.

Dr. Sze said that there was no use disguising his feeling. He felt a great pain in listening to the words of Mr. Hanihara. Indeed, he felt not only pain, but a great disappointment. He regretted to say so, but he could not help it.

Baron Shidehara said that he could not understand Dr. Sze's disappointment. The Japanese delegates had not said that they were

against the Chinese proposition, although they did not say that they were in favor of it. That was the present stage of their negotiations. He thought that fair progress had already been made.

Dr. Koo said that the usual course followed by the two delegations in the discussion of many other questions was to sum up at the end of the conversation and make a tentative agreement upon any particular point, subject to the settlement of the whole question. The question of the customs, which proved to be rather easy of solution, was treated in that manner. As to the railway question, the Chinese delegates had not only tried to make clear their position, but had made various concessions in order to enable both delegations to come to a tentative agreement, subject, again, to the settlement of the whole question. He and his colleagues desired to know if such stage had not yet been reached. He thought that they knew now where they stood in regard to this most important of all questions. It was very desirable to say at least that the points threshed out so far, together with various concessions made by the Chinese delegates, would form the substance of an agreement. Only with that understanding, and also with the understanding that the agreement would be subject to the settlement of the whole question, could they proceed to some other matter.

Mr. Hanihara said that he could not agree to the view taken by Dr. Koo. Suppose they tentatively agreed on that most important question and they could not agree on small matters, the situation would be very awkward. He felt sure that they could more easily reach an adjustment as to other questions and the whole situation would be made much easier.

Dr. Koo said that there was a general guaranty in the agreement previously reached that no decision on any single question would come into force unless the whole question was solved. Therefore the Japanese position was quite safeguarded.

Mr. Hanihara said that that was quite clear, but that the question was which method would be better—to take this question first, or to take other minor questions first. Japan had made even greater concessions than China. So far as he could see, the Japanese delegates had been carrying on the negotiations in a very conciliatory spirit.

Baron Shidehara said that, as a matter of fact, the Chinese delegates had reserved the discussion of paragraph 5 for a future occasion.

Dr. Koo said that the reason why the Chinese delegates had deferred the discussion of paragraph 5 was only because they were not able to ascertain whether it was necessary, after all, to issue loan to make the payment. In any case that was a question of small and secondary importance.

Baron Shidehara said that he thought it would accelerate the discussion to pass to some other question for the present, because he desired to have a few days to give consideration to the question of the railway.

Dr. Wang asked whether the Japanese delegates could provisionally come to an agreement, subject to the settlement of the whole question.

Baron Shidehara said that the Japanese delegates had made their position sufficiently clear. They had been carrying on discussions with the understanding that they would be carried on without prejudice to their original plan of a joint enterprise. They had already said that they were not against the Chinese counterproposal. But at the same time they had not said that they accepted it. They had, however, to have time to consider. It would take a few days more before they could make a decision. He was happy to say that the Japanese delegates had now fully understood the Chinese position. He thought that that would certainly help them to reach a satisfactory settlement.

Sir John Jordan asked how long it would take for the Japanese delegation to come to a decision.

Baron Shidehara replied that it would not take very long. He said to the Chinese delegates that they would meet again to-morrow presumably. He added that, to be perfectly frank, the Japanese delegation had no definite instruction on the point. For his part, he was willing to give consideration to the Chinese proposition.

Dr. Koo suggested that if the Japanese delegates found it necessary to obtain specific instruction, they might adjourn the meeting until they got it.

Baron Shidehara said that it would be useful to take up, in the meantime, other questions in order not to waste time.

Mr. MacMurray asked how many days the Japanese delegates considered it necessary to wait.

Sir John Jordan said that the Chinese delegates were in a very difficult position.

Dr. Koo said, so long as the general question was not settled, no part of the agreements would go into effect. He did not see the reason why the Japanese delegates should have any hesitation in agreeing in substance and tentatively on the question of the railway.

Mr. Hanibara remarked that, as Baron Shidehara said, the Japanese delegates had no explicit instructions except that they had to stand by the original plan of joint enterprise. But they were earnestly seeking an arrangement which they might find themselves able to recommend to the Government. That was a very fair and proper stand for them to take.

Dr. Sze wondered what was in the mind of the Japanese delegates—whether they were waiting for all other questions to be discussed and decided upon or whether they were awaiting instructions from home.

Mr. Hanibara said that, on the supposition that the Japanese delegation would recommend to the Government to modify their former decision, it would be necessary to attach to such recommendation the reasons therefor. In order to ask instructions, he had to be able to say that all other matters would be settled in a satisfactory way.

Dr. Sze said that he was constrained to use plain words. It had never been agreed that the Japanese delegates were to make a recommendation to their Government on any particular matter only when all other questions were disposed of.

Dr. Wang said that the Japanese delegation had the general guaranty and that there was no danger in accepting the Chinese proposition.

Baron Shidehara asked whether the Chinese stand was that no other questions would be considered before the question of the railway was disposed of.

Dr. Wang said that the Chinese delegation placed the railway question before any other question.

Baron Shidehara said that he could not see why they should needlessly lose time. It would be a few days before they would come to a decision as to the railway question. They could in the meantime discuss some other questions. He thought that some results would surely be attained.

Dr. Koo said that he need not dwell upon the tremendous difficulties encountered by the Chinese delegates in entering into these informal conversations. Even at present reports they were receiving from home were by no means reassuring. They were carrying on the conversations under great pressure. He thought that that circumstance was well known to the Japanese delegation. One hope the Chinese delegates had entertained in meeting the Japanese delegates was to arrive at an early agreement on the question of the railway. An increased pressure from outside was brought to bear upon them when the railway question had not been made the first subject of discussion. Since taking an adjournment on that question after a short discussion nearly one week and a half had been spent in discussing other questions. The Chinese delegates found their difficulties greatly increasing. They had, however, been hoping all along to reach an early settlement of this question and be relieved from the pressure upon them.

Baron Shidehara said that he quite appreciated the position of his Chinese friends and that he could assure them of his earnest desire to do everything to expedite the solution of the question. If they were, however, to stop the discussions, even for a few days, that would create a bad impression in the popular mind, since they might very naturally surmise that the negotiations had been unsuccessful.

Dr. Sze said that if they adjourned and took up other questions the Chinese delegates would have to give explanations, which they hated to do. If they suspended the discussions, then the Chinese delegates could say that they were only waiting until the Japanese delegates received instructions from home. He did not think that it would serve any useful purpose to discuss other matters before they settled the railway question.

Baron Shidehara said that he hoped the Chinese delegates would believe him when he said that he was eagerly looking for an early settlement of the whole question. He would frankly say that, within the limits of the instructions in hand, he could not agree to the Chinese proposal. At the same time the Japanese delegates were prepared to do their best. They were very much afraid if they discontinued the conversations the public might get false impressions. He thought it best not to lose time by doing nothing while the Japanese delegates awaited instructions.

Dr. Koo asked whether they could adjourn until the Japanese delegation communicated with Tokyo.

Baron Shidehara said that telegrams to Japan would now take 72 hours in transmission. He thought that it would be better not to lose time. In the meantime the Japanese delegates would do their best

to find out some basis of agreement. It was their sincere intention to meet the wish of the Chinese delegates as far as possible.

Dr. Wang said that they had been talking for two weeks; that the position of the Chinese delegation was much more difficult than that of the Japanese delegation.

Baron Shidehara said they had been proceeding in the friendliest of spirit. Why should they not take up some other matter? He and his colleagues, for their part, would be glad to do their utmost to reach a decision. He did not wish to give the public the impression that a critical stage in the negotiations had been reached. The Japanese delegation had not opposed, had not said anything against the Chinese proposition. Were his Chinese friends not ready to discuss the question embodied in the fifth paragraph of his observations to-morrow?

Dr. Wang said that the position of the Chinese delegation would be made extremely difficult were they to take up other questions without at least coming to a tentative agreement.

Baron Shidehara reminded the Chinese delegation that they had reserved paragraph 5 of his observations for future discussion.

Dr. Koo said that it was only a secondary question, which would not arise before they had found out that cash payment could not be made.

Baron Shidehara understood that the Chinese delegation has proposed to refer to Peking in regard to that question.

Dr. Koo said he saw no necessity of doing so in a hurry.

Baron Shidehara asked when they should meet again.

Dr. Koo said that he did not desire to add to the difficulty already existing for the Chinese delegation. They might adjourn in order that the Japanese delegation might be able to communicate with Tokyo. The conversations might be resumed as soon as they had heard from Tokyo.

Mr. Hanihara suggested taking up No. 5 of Baron Shidehara's observations to-morrow. The Japanese delegation desired to inform themselves further in respect of the question embodied in that paragraph. He suggested discussing that question the following day.

Baron Shidehara remarked that if they met again the following day they could perhaps decide whether it would be advisable to adjourn or not; they could perhaps see clearly if they could come to an agreement.

Dr. Koo said that in proposing adjournment, it was far from the intention of the Chinese delegation to press their Japanese colleagues unduly. Only, the procedure of the conversations had been closely followed by the Chinese people. They knew that the question of the railway had been twice taken up. The Chinese delegation could not wait until all other questions had been settled before a provisional understanding on the railway was reached.

Baron Shidehara said that if they met the next day, the Japanese delegation might perhaps be able to define their position more fully, more explicitly. They could then decide to continue or adjourn for a few days.

Dr. Koo inquired if, in other words, Baron Shidehara desired to have another meeting on the question of the railway to define the Japanese views.

Baron Shidehara said that the Japanese delegation could perhaps decide overnight what to do in the situation. He appreciated the position of his Chinese friends and would do his best to help them.

Dr. Koo said that the Chinese delegation agreed, in the hope that a provisional agreement would be had at the next meeting.

PRESS COMMUNIQUÉ.

The press communiqué was agreed upon (Annex I) and the meeting adjourned at 5.40 p. m. until 3.15 p. m. to-morrow.

WASHINGTON, D. C., December 13, 1921.

SJC-11.]

ANNEX I.

DECEMBER 13, 1921.

[For the press.]

The eleventh meeting of the Chinese and Japanese delegates relative to the question of Shantung was held in the governing board room of the Pan American Union Building. The discussion on the question of Kiaochow Tsinan Railway was continued. The meeting adjourned at 6 o'clock this afternoon until 3.15 o'clock to-morrow afternoon.

TWELFTH MEETING.

Twelfth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3.15 o'clock in the afternoon of Wednesday, December 14, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Tsai, Mr. Tung-Fan Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Rt. Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

THE QUESTION OF THE RAILWAY.

Baron Shidehara said that at the last meeting he had assured his Chinese friends that the Japanese delegates would do their best to meet the Chinese point of view. They fully appreciated the Chinese position. At the same time, as he had very frankly said, the Japanese delegation had no instructions authorizing them to give up the plan of the joint enterprise; but since the scope, nature, and substance of the Chinese counterproposition had been made sufficiently clear, the Japanese delegates had in fact worked out a plan which might

be taken as a substitute for the original Japanese proposal of joint enterprise. It had been his intention, first, to obtain authorization from Tokyo as to a new proposal, and then to lay it before the Chinese delegates for their consideration. But, being sincerely anxious to meet the desire of the Chinese delegates, they had decided to reverse the order of procedure originally in their mind, and to present immediately at this meeting a tentative plan of adjustment respecting the Shantung Railway which might serve as a substitute for the original plan of a joint enterprise, before submitting it to Tokyo for approval. He should, perhaps, read the plan:

"(1) Japan to hand over to China, as soon as practicable, and not later than ----- months [*Baron Shidehara said, six or eight months, for instance; that point could be fixed later*] after the coming into force of the agreement on the whole Shantung question, the Shantung Railway and its branches, together with all the properties appurtenant thereto, including wharves and warehouses, it being understood that the question of the mines appurtenant to the railway shall be set apart for separate consideration.

"(2) China to pay to Japan the actual value of the Shantung Railway properties as represented by the Reparation Commission figure, plus the amount which Japan, during the period of her administration of the railway, has actually expended for permanent improvements on and additions to the railway properties, less a suitable allowance for depreciation. It is understood that no charge will be made for the transfer to China of wharves and warehouses mentioned in the preceding clause, except for such permanent improvements on and additions to them as may have been effected by Japan. A Sino-Japanese joint commission to be appointed for the purpose of making just and fair valuation of the railway properties to be handed over to China.

"(3) To cover the payment under the preceding clause, China to conclude a loan agreement with Japanese capitalists on the basis of the terms embodied in railway loan agreements of comparatively recent dates which she has entered into with various foreign capitalists. Negotiations for the loan agreement to be commenced as soon as possible and to be concluded within six months [*Baron Shidehara said that he gave six months tentatively*] after the coming into force of the agreement on the whole Shantung question."

Baron Shidehara added that it was practically on the same lines as had been discussed yesterday.

Dr. Sze said that he thought the first article was similar to the Chinese proposal of yesterday, and he wondered whether the wording could not be so altered as to make it clear when the transfer of the railway would be completed.

Baron Shidehara wondered whether the wording was not clear enough. Japan was to transfer to China the railway within a specified period. It was a technical question how many months it would take to complete the transfer. He had suggested six or eight. He did not think that that was very long.

Dr. Sze asked whether the phrase "not later" could not be changed to something like "transfer shall be completed." As it was, only the commencement of the transfer was defined.

Baron Shidehara asked whether Dr. Sze had any idea as to the duration necessary for the transfer.

Dr. Sze remarked that the line was 289 miles long. If they made preparations in good time, six months would be sufficient. That would mean practically nine months from now. He was counting upon about three months to pass before the agreement was reached and ratified. Therefore six months would give ample time.

Baron Shidehara said that it was after all a question of phraseology. He had no preference to any particular wording. If the agreement were to take the treaty form, terminological improvements would have to be made, but he had to confess that he had no technical knowledge to pass any judgment as to the length of time to be required for the completion of the transfer.

Dr. Sze suggested that six months should be tentatively adopted.

Baron Shidehara said that he should like to refer that question to some technical expert.

Dr. Sze said that a Chinese technical expert had advised him that six months would give ample time. As soon as an agreement was reached, the inventory of the properties would have to be made. After that the transfer could completely be effected in six months.

Baron Shidehara proposed that it should be nine months, tentatively. He could not tell just now, without any technical knowledge, what would be the most adequate length of time, but he would like to make it nine months, subject to modification.

Dr. Sze agreed. He, continuing, said that he would like to add the words "similar properties" after "wharves and warehouses."

Baron Shidehara asked what properties Dr. Sze had in mind in making that proposition.

Dr. Sze said that after the inventories were made it may be found that there were some properties which the Germans did not include among the railway properties, but which had come to be counted among such properties under the Japanese occupation. He, however, lacked knowledge as to the actual situation.

Baron Shidehara said that the Japanese delegation had no objection to the inclusion of such phrase, but the words "properties appurtenant thereto" appearing in his draft might be sufficient.

Dr. Koo observed that the wharves and warehouses were, under German régime, not included in the railway properties. They were regarded more as facilities for ships. They had, however, been decided to be discussed separately from other public properties at the request of Mr. Hanihara the other day. The Chinese delegates did not know whether, apart from those two establishments, there were other properties which came under the same category, but they desired to make provisions for them in order to avoid practical difficulties.

Baron Shidehara said that he had no objection to it.

It was decided to add the phrase, "and other similar properties" after "wharves and warehouses."

It was also agreed, at the instance of Baron Shidehara, that "the Shantung Railway" should be changed to "the Tsingtao-Tsinanfu Railway."

It was also agreed that the phraseology of the whole paragraph should be so changed as to make it clear that the completion of the transfer would be effected in nine months, reading as follows:

"(1) Japan to transfer to China the Tsingtao-Tsinanfu Railway and its branches, together with all the properties appurtenant thereto,

including wharves and warehouses and other similar properties, it being understood that the question of the mines appurtenant to the railway shall be set apart for separate consideration, the said transfer to be completed as soon as practicable and not later than nine months after the coming into force of the agreement of the whole Shantung question."

Dr. Koo said that perhaps it would be more conducive to clear understanding if exact figures were given in the second paragraph instead of saying, "the Reparation Commission figure."

Baron Shidehara remarked that the Reparation Commission figure was only tentatively fixed; it was not final, and therefore it was very difficult to give exact figures.

Mr. Debuchi stated that he understood that according to the tentative arrangement by the Reparation Commission the figures stood at 59,000,000 gold marks, including the value of the mines. He added that the exact figures for the railway itself were 53,406,141 gold marks.

Dr. Koo said that he might be mistaken, but his understanding was that the reparation amount had been agreed to by the Japanese representatives on that commission.

Mr. Debuchi said that that was tentatively agreed to by the Japanese and other delegates.

Dr. Koo said that not being party to the treaty of Versailles, and consequently not represented upon the Reparation Commission, it was naturally very difficult for the Chinese delegates to find out the exact amount of liability to be decided by the committee. He desired to set down in figures the exact amount instead of such an indefinite statement as the reparation figures.

Baron Shidehara suggested that perhaps that point could be made clear by an exchange of notes. It would be very awkward to put in the figures which were not final but only tentative.

Dr. Koo asked whether it was the understanding of the Japanese delegates that the figures might be modified.

Baron Shidehara replied in the affirmative.

Dr. Koo stated that he had understood that the amount had definitely been accepted by Japan and other countries but tentatively by Germany.

Mr. Debuchi said that he was not sure. He understood that the agreement was only tentative.

Dr. Koo stated that if the exact figures were not given in the agreement the Chinese delegates would be in an uncertain position.

Baron Shidehara inquired what the idea of the Chinese delegation was as to exchanging notes clearly setting forth what had taken place in the Reparation Commission in Paris. It would be awkward to put exact figures in the agreement which were merely tentative.

Dr. Koo then pointed to the phrase at the end of paragraph 2, providing for the method of valuation of the railway properties. He wondered whether that valuation would be confined to the permanent improvements and additions.

Baron Shidehara replied that, as the Japanese delegation understood, they would apply only to the improvements and additions. He added that he had adopted a more comprehensive phrase because the reparation figure was only tentative.

Dr. Koo said that when the Chinese delegates had suggested the term "reparation figure" they had in mind the definite figures. If those figures should be modified, China would be placed in an unfavorable position, not being represented on the Reparation Commission.

Baron Shidehara remarked that possibly she might be placed in a favorable position.

Dr. Koo said that depended upon which way the figures might be altered.

Baron Shidehara said that he had no definite knowledge on the question, and suggested that he send a telegram to Paris to ascertain what had transpired in the Reparation Commission.

Dr. Koo said that perhaps he had not made his position sufficiently clear. When the Chinese delegation referred to the reparation amount, they had in mind only the exact figures of 53,406,141 gold marks. They could in reality only be concerned with the definite figures.

Baron Shidehara said that he might be wrong; the figure might have become definite; but his information was that the figures were not final. He would refer to Paris for exact facts.

Dr. Koo said that the intention of the Chinese delegation was to pay 53,406,141 gold marks plus value of improvements and additions. It was not their intention to pay whatever the Reparation Commission might determine.

Baron Shidehara suggested a formula reading: "The Reparation Commission figure, which stands at such and such a sum."

Dr. Koo said that the Chinese delegates were not concerned with the Reparation Commission. What they were concerned with was the exact amount.

Baron Shidehara observed that if the figures alone were given and no mention was made of the Reparation Commission, then it would not be clear why the figures were stated. He then suggested another formula running: "The amount to be credited to Germany on reparation account; namely, 53,406,141 gold marks."

Dr. Koo said he was not sure whether that would help to clarify the situation.

Baron Shidehara said that perhaps the Chinese delegates did not like reference to the Reparation Commission.

Dr. Koo stated that the mention of the Reparation Commission was unnecessary. He then proposed a new formula, reading: "The actual value, _____, which is agreed to be _____."

Sir John Jordan said to Dr. Koo that he and his colleagues did not quite see the point the Chinese delegates were trying to make. He would have thought that if Japan had to pay more than the stated amount, then China would have to pay more; if Japan were to pay less, China would pay less.

Dr. Koo said that the Chinese proposal was not to pay whatever Japan would pay to Germany; what the Chinese delegates had accepted was only the amount of the reparation figures themselves.

Baron Shidehara asked Mr. MacMurray whether he did not possess some information as to the decision of the Reparation Commission.

Mr. MacMurray said that what information he had was based upon a summary which stated that the value of the Shantung Rail-

way was definitely decided upon on June 25 last, but that was only a summary of what had transpired, and he was not sure as to the exactness of the information.

Baron Shidehara said that he had been given to understand that the figures were only tentative.

Dr. Koo stated that in response to a formal inquiry by China the Reparation Commission answered in a letter that the figures, which stood at 53,406,141 gold marks, which coincided with the figures given by Mr. Debuchi, had been accepted officially by the representatives of Japan and other countries and unofficially by the German representative. The Chinese delegation was not in a position to comment upon the understanding of the Japanese delegates in the matter, but they had those definite figures in mind in discussing the question of what China should pay.

Dr. Sze understood that the agreement at the Reparation Commission was tentative in the sense that it had to be approved by the ambassadors' conference. That was a mere matter of formality. His information was that the agreement was referred to the ambassadors' conference on May 17.

Dr. Koo said that, as Mr. Debuchi had stated, the figures had been accepted by Japan and other powers. But this discussion of the history of how the figures came to be adopted by the Reparation Commission was in the nature of a digression. The point the Chinese delegates wanted to make was that they had only definite figures in mind. It did not make much difference how or by whom the figures had been fixed.

Baron Shidehara agreed with Dr. Koo's opinion on the last point.

Dr. Koo, continuing, said that the mention of the definite figures would enable the Chinese delegates to proceed at once with the task of providing funds for meeting the major part of the cost to China.

Baron Shidehara asked whether there was much difficulty on the Chinese part to adopt the formula last suggested by him.

Dr. Koo said that he didn't quite understand why Baron Shidehara persisted in mentioning the Reparation Commission. He thought the specific figures would be all that was necessary.

Baron Shidehara said that if no mention was made of the Reparation Commission, then the word "plus" in the passage in question would become meaningless.

Dr. Sze suggested to substitute "in addition to" for "plus."

Dr. Koo suggested that adoption of the formula "which shall consist of such and such figures, plus, etc."

Baron Shidehara feared that the omission of any allusion to the Reparation Commission might create misunderstandings on the part of the public, who would not know what those figures stood for.

Dr. Koo still thought that that was unnecessary.

Baron Shidehara said that the meaning would be clear by adopting the formula he had just proposed, running "the Reparation Commission figures, which stand, etc."

Dr. Koo said that that point did not seem to him to be so forceful as it might appear to be. The figures would be taken as representing the properties in the main. The public would not misunderstand.

Baron Shidehara said that he was not quite sure about that. The public might suppose that the sum represented a gratuitous payment on the part of China.

Dr. Wang suggested the formula, "which is hereby agreed to be."

Baron Shidehara said that he had no objection in mentioning figures, but he thought it would be useful to give an explanation as to the meaning of the figures. It was, after all, a very minor point—a question about the form of wording.

Mr. Hanihara desired to make it clear that Japan was not taking that amount for themselves, but that it was to go to Germany. The public did not know the facts of the case, and it would not be fair to Japan not to make clear the meaning of the figures.

Baron Shidehara asked whether the reason why the Chinese delegates had been objecting to the mention of the Reparation Commission was because China was not represented on that commission.

Dr. Sze said that, as the Chinese delegation had stated before, there were some Chinese shareholders. If the Reparation Commission was mentioned, then those shareholders would say that the value of the Chinese shares ought to have been deducted from the reparation amount. The Chinese public would hardly be reconciled on that point. That was a strong reason why the Chinese delegates had persisted in the elimination of the reference to that commission.

Baron Shidehara said that they were going to set down the figures. They could not, therefore, fool the public. He added that the wording he had used in his draft agreement was the one which had been accepted yesterday. He desired that that should be adopted as it was, if there were no serious objections on the part of the Chinese.

Dr. Koo responded that the Chinese delegates had used the phrase "reparation amount" simply for the purpose of identifying what they meant. With a view to avoiding any possible doubt in the public mind, he suggested the use of the phrase "actual value which is assessed at so many gold marks."

Baron Shidehara said that he did not think that that would clarify the meaning.

Dr. Koo said that he did not know whether they were to discuss the point any longer. As a matter of fact, he did not think that the public would entertain any doubt or misunderstanding. All such instruments should be couched in concise language. If it was found necessary by the Japanese delegation to make explanations, some other method, such as the issue of a declaration or a statement, could be resorted to.

Baron Shidehara said that if the Chinese delegation were to raise the question of the shareholders, and on that account proposed to modify the reparation figure, that would destroy the whole agreement made by the Reparation Commission.

Dr. Sze explained that that was only one of the reasons. If the deduction of the amount of the Chinese shares was not made, the Chinese delegation would have to bear the brunt of popular pressure at home. They had accepted the explanation of the Japanese delegates yesterday, so they had to seek some other means of palliating the said pressure. The Chinese shareholders would naturally prefer receiving the value of the shares at once instead of taking the trouble of collecting that from Germany.

Baron Shidehara suggested a new formula running:

"-----, consisting of the sum of 53,406,141 gold marks which is the assessed value of such railway properties as were left behind by the Germans."

After consultation among themselves, the Chinese delegates agreed to Baron Shidehara's formula, with the addition of the phrase "or its equivalent" after "gold marks."

Dr. Koo suggested adding "less a suitable amount of depreciation" after "except for such permanent improvements on and additions to them as may have been effected by Japan."

Baron Shidehara agreed.

The first part of paragraph 2 was amended to read as follows:

"China to pay to Japan the actual value of the Tsingtao-Tsinanfu Railway properties, consisting of the sum of 53,406,141 gold marks, or its equivalent, which is the assessed value of such railway properties as were left behind by the Germans, plus the amount which Japan, during the period of her administration of the railway, has actually expended for permanent improvements on and additions to the railway properties, less a suitable allowance for depreciation. It is understood that no charge will be made for the transfer to China of wharves and warehouses and other similar properties mentioned in the preceding clause, except for such permanent improvements on and additions to them as may have been effected by Japan, less a suitable amount of depreciation."

Dr. Koo desired to comment upon two points contained in the second clause of Baron Shidehara's tentative plan. The first point was the valuation of the railway properties to be made by the Sino-Japanese joint commission. He wanted to have it made clear that such valuation should be confined to improvements of and additions to the railway properties. The second point was the organization of a joint commission. He thought it was more desirable that, in appointing the joint commission, experts of some neutral nationality should be chosen with the mutual consent of Japan and China. He did not want to give the impression that there existed any supposition on China's part that the work of valuation could not be satisfactorily carried out without the presence of neutral experts, but he thought it was usual to have a third party chosen with mutual consent. In case honest doubt existed on either side it would be expedient to have a machine right on the spot to consult, and it was possible that there might arise honest differences of opinion. In such case the presence of a neutral expert would facilitate the discharge of duties by this commission. The question of valuation appeared to him to be a highly technical matter, and it was desirable that an expert of a third nationality should be called in.

Baron Shidehara said that he hoped there might be practically no differences between the Chinese and Japanese experts, but that if the commissioners should really be unable to arrive at any definite valuation in common accord, Japan and China could then consider and decide what should be done.

Dr. Koo said that he was afraid a great deal of time would be lost in that way; moreover, the work of the joint commission would not be confined to the valuation. There might be honest difference of views; for instance, as to what were improvements and what not.

Baron Shidehara did not think these matters could present insurmountable difficulties. It was not necessary that an expert of a neutral nationality should be chosen from the beginning. If the joint commission should be unable to reach definite figures, it would then be time enough either to call in neutral assistance or resort to some other means.

Dr. Sze said that the Chinese delegation wished to avoid giving people the idea that if the joint commission could not agree the whole adjustment of the railway question would have to wait. For the sake of smooth working and speedy conclusion, it seemed to him highly desirable to have a provision to meet the emergency of honest difference arising.

Baron Shidehara said he was afraid that such a provision might create misunderstanding in Japan. It would give an impression as if both sides had an idea from the start that they were going to disagree. The idea of bringing in a neutral expert to decide their own differences could never create a good impression.

Dr. Koo said that considering the nature of the work to be performed by the commission, which was purely technical, he hoped that appointment, in the composition of the proposed commission, of a neutral expert would never give rise to any misunderstanding.

Baron Shidehara said that China had her experts and Japan had hers. He did not see why there should be insoluble differences if they worked together with honest purpose. It was, indeed, hardly worth while to invite the presence of a neutral. Experts of Japan and China ought to be able to settle any differences that might arise in this connection.

Dr. Koo observed that to meet the wishes of the Japanese delegation he would suggest a plan whereby disputes and differences between the Chinese and Japanese commissioners might be referred to expert arbitrators chosen by mutual agreement.

Baron Shidehara didn't think such a plan necessary. Of course, in case the commissioners could not agree on any point it would become necessary for the two Governments to decide upon the proper means.

Dr. Koo said the Chinese plan was to decide upon that means while the two Governments were discussing the matter in an amicable spirit. When the differences actually arose they might not be in the best mood to come to an agreement.

Baron Shidehara said he was afraid such a plan might create an impression that both parties had expected differences. The solution of the whole question of Shantung was being sought in a spirit of conciliation and friendliness. Even if technical differences should arise, they should not prove too difficult to compromise. It would create an unfortunate impression upon the people of Japan to have a neutral arbitrator or anything like that.

Dr. Koo said he understood that as to the idea itself they were not far apart. In the case of dispute, and disputes would arise even between the best of friends, it would be the part of wisdom to make provision to meet such a contingency. He wondered if his Japanese colleagues would not agree in substance to the Chinese proposal and make the matter the subject of separate notes to be exchanged between the two Governments. He had no desire other than to make

a proper business arrangement, so that technical questions might not furnish any ground for misgivings. In other words, the Chinese delegation were ready to accept Japanese proposals for the joint commission on the understanding that a provision for referring technical differences to neutral arbitration should form the subject of notes to be exchanged between the two Governments.

Baron Shidehara asked further if it was the wish of the Chinese delegation to refer differences to arbitration.

Dr. Koo said that the nature of the function of the joint commission was very technical. He thought it was advisable to provide for arbitration, to which such technical differences might be referred.

Dr. Sze said that even with the best of intentions experts were apt to differ from each other very much. To cite an instance, it had been proposed to build the Yellow River bridge in China. The figures submitted by different bidders, even though of the same nationality, were widely different. The Chinese delegation wished to settle the whole question once for all. If no proper provision were made, it might cause, not only delay but misgivings, which both the Japanese and Chinese delegations were anxious to avoid. It was not proposed to insert this provision in the agreement itself, but that it should form the subject of separate notes.

Baron Shidehara said it would be practically the same whether it was made a separate note or placed in the agreement itself. The remark he and Mr. Hanihara had made would apply just the same. Moreover, it did not look nice that complications should be anticipated from the beginning.

Dr. Sze said the provision for arbitration would not necessarily create a bad impression. Japan had several arbitration treaties, he understood.

Baron Shidehara said that it was not a very important question. It was merely a question of policy—a technical question. He did not see, however, why they should from the outset contemplate serious disputes which would have to be referred to arbitration.

Dr. Sze said the Chinese delegation had in mind not simply disputes, but more especially the question of valuation.

Baron Shidehara said that those matters ought not to be difficult for the commissioners to compromise. If they knew there was a machine ready to take up their differences, they would be slow to compromise.

Dr. Koo admitted that the spirit of conciliation and compromise on both sides would prevent any occasion arising to resort to the machine, but still it would be the part of wisdom to have a provision in case of difference of views actually arising.

Baron Shidehara said that he hoped that in a procedure like this each case would be decided on its own merits. Should the experts fail to agree, let the two Governments take up the question and decide it from a broader point of view than from a technical standpoint. He was, himself, really afraid misgivings might be created in the popular mind of Japan if such a provision as suggested by the Chinese delegation were to be adopted. The Japanese people felt that Japan and China should be able to adjust any differences between them without calling in neutral arbitrators or judges.

Dr. Koo said he was not sure if he made it clear to the Japanese delegation that the Chinese proposal would form merely a separate

provision. If the joint commission were animated by a spirit of conciliation and compromise, they would be able to settle all questions without the necessity of utilizing such a provision.

Baron Shidehara suggested that the discussions should be finished. It was nearly 5.30.

Dr. Koo said that in regard to the third paragraph of Baron Shidehara's plan, the question of the loan would not arise if China could reimburse Japan in cash.

Baron Shidehara asked whether it was the idea of the Chinese delegates to leave paragraph 3 undecided. That was a point to which the Japanese delegation attached the greatest importance.

Dr. Koo replied that the idea of the Chinese delegation was to set aside for the moment the discussion of the question of the method of payment.

Baron Shidehara said that the Japanese delegation placed so much importance to this question that, if his Chinese friends intended to leave it undecided, it would be very difficult for the Japanese delegates to agree to the whole plan.

Dr. Koo said that in suggesting to set aside the question of the loan for the moment, the Chinese delegates merely desired to make it clear that China would like to pay Japan as soon as possible. He understood that what Japan desired China to do was that she would discharge her duties as rapidly as possible.

Baron Shidehara said that that was not exactly the Japanese position. Japan desired to retain certain interests in the railway to the same extent as various foreign capitalists had in regard to various Chinese railways.

Dr. Sze said that the Japanese delegates would not object if China could pay in cash.

Baron Shidehara said that Japan did not desire it; that what she wanted was to retain certain interests in the railway for Japanese capitalists.

Dr. Sze asked if that was the case even if China would make a cash payment.

Baron Shidehara said that he had to repeat what he had said.

Dr. Sze said that the policy of China was not to make any new railway loan, especially in the present case. Chinese bankers had offered a loan, and it might not be necessary for them to float any foreign loans. He added that the position of the Chinese delegation was very difficult.

Baron Shidehara said that most of the railways in China had foreign interests in them. If Japanese capitalists were excluded from having like interests, it would be felt that they were receiving discriminatory treatment.

Dr. Sze said that foreign interests were represented in older railways, but it was not the policy of China to resort to any more foreign loans if she could possibly help it.

Baron Shidehara said that China had contracted foreign loans for her railways in 1914, and perhaps even later.

Dr. Sze said that if China was going to take loans from other countries and excluded the Japanese financiers from participating in them, criticism might arise that discriminatory treatment was being practiced, but when the Chinese bankers were to finance the enterprise no such complaints could be advanced.

Baron Shidehara said that the Chinese delegation were entirely disregarding the history of the railway. In transferring it to China it was only natural that Japan should desire to retain interests in the railway to the same extent as foreign capitalists have in other railways. He added that he would like the Chinese delegates to understand that it was extremely difficult for him to agree to any other plan. This loan arrangement itself was already a great concession on the part of the Japanese delegation. However, if the Chinese delegates could not decide to-day, it would be better to adjourn the discussion until to-morrow. He only desired the Chinese delegates to understand that he placed great importance on that phase of the question.

Dr. Sze said that the Chinese position was very difficult. His own people had offered the loan.

Baron Shidehara urged the Chinese delegates to realize the standpoint of the Japanese delegates. While he quite understood the Chinese position, he could not recede from the position he had taken.

The press communiqué was agreed upon (Annex I), and the meeting adjourned at 5.50 p. m. until 3.15 p. m. to-morrow.

WASHINGTON, D. C., *December 14, 1921.*

SJC-12.]

ANNEX I.

DECEMBER 14, 1921.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twelfth meeting of the Japanese and Chinese delegates relative to the question of Shantung was held at 3.15 p. m., in the governing board room of the Pan American Union Building. The discussion on the question of Tsingtao Tsinan Railway was continued, and they have approached an understanding on several features of this question. The meeting adjourned at 5.30 this afternoon until 3.15 to-morrow afternoon.

THIRTEENTH MEETING.

Thirteenth meeting, held in governing board room, the Pan American Building, Washington, D. C., at 3.15 o'clock in the afternoon of Thursday, December 15, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Tsai, Mr. T. C. Yen, Mr. Tung-Fan Hsu, Mr. C. H. Zee, Mr. Telly Howard Koo, Mr. Chuan Chao.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

QUESTION OF THE RAILWAY.

Dr. Sze thought that both delegations left the last passage of paragraph 2 of the Japanese counterproposal undecided. Dr. Koo had proposed the provisions of arbitration in that connection. The Chinese delegates still thought it best to have some such provision, although they hoped that no differences would arise in the valuation of the railway properties. Inasmuch as they would negotiate in a conciliatory and friendly spirit, there might in fact be no need of such provision. However, even among technical experts discrepancies in estimates might arise. Therefore they thought that a provision of that nature would be very useful.

Baron Shidehara said that in order to meet the Chinese desire he would propose tentatively—though the idea was not yet quite definite even in his own mind—that there should be an exchange of notes somewhat in the following sense:

“Should the joint commission fail to reach an agreement on the valuation of the Tsingtao-Tsinanfu Railway properties under clause _____ of the agreement signed this day the matter shall be taken up by the two Governments for discussion and adjustment by means of diplomacy. In the determination of the points at issue the two Governments shall, if necessary, obtain recommendations of an expert of a third power, who shall be designated in mutual agreement with each other.”

Dr. Koo said that the gist of Baron Shidehara's counterproposal was acceptable, with certain modifications which he desired to submit for the consideration of the Japanese delegation. Firstly, this joint commission would deal with perhaps other questions than the valuation, such as what constituted permanent improvements and additions. There might also arise differences of opinion as to what particular properties should be transferred to China. Therefore it seemed to the Chinese delegates to be desirable to give more latitude to the functions of the joint commission. He asked whether it would be agreeable to Baron Shidehara to add the phrase “the question of valuation or transfer of the Tsingtao-Tsinanfu Railway properties or other questions arising therefrom.” instead of simply stating “the valuation. _____.” That was suggested merely to insure the usefulness of the commission for their purpose. As regards the designation of an expert of a third power, it would be very useful to have one appointed in advance, so that he might be immediately available when needed. By that arrangement a great deal of time would be saved. Although he did not propose to make exhaustive provisions for all possible contingencies, he thought it most practical to have a neutral expert designated in advance. Then, even with expert recommendations the Governments might find it difficult to agree; so he would add a clause which would provide that “the differences should be referred to arbitration by experts of a third power to be designated with the mutual consent of the parties concerned.”

Baron Shidehara asked whether Dr. Koo proposed to change the wording of clause 2 in his original proposal.

Dr. Koo answered in the affirmative.

Baron Shidehara reminded Dr. Koo that his present plan was to be executed by an exchange of notes. Clause 2 of his proposal concerned only the valuation of the railway properties. Dr. Koo's present suggestion, therefore, involved a change of the original plan.

Dr. Koo said that they needed not, perhaps, go into so much detail. A phraseology which covered all points might be used.

Baron Shidehara said that the point Dr. Koo had been trying to make was covered by the word "valuation."

Dr. Koo observed that differences might arise as to what constituted permanent improvements or additions.

Baron Shidehara said that if they were not improvements they would be deducted from the account and no question of valuation would arise.

Dr. Koo said that about the majority of improvements there would be no question, but that there might be some few about which the question might properly arise whether they were improvements or not. That was not strictly a question of valuation.

Dr. Sze said he would try to explain by taking an example. Suppose a car broke a window pane and that it was replaced; that would be a replacement and not improvement. To decide whether something was merely a replacement or an improvement was not exactly a question of valuation.

Baron Shidehara stated that what they were at present concerned with was the valuation of property. He did not think that China wanted to take over properties of no value to herself.

Dr. Sze said there was difference between an improvement and a replacement. The latter was a technical term in railway business.

Baron Shidehara said that such questions did not arise in regard to the question of valuation. There was no use of discussing such a point academically. How much China had to pay Japan—that was a question of valuation.

Dr. Sze said suppose an old car was broken; it would be necessary to have a new one. That would be a replacement and would not involve a question of valuation. Such matters should likewise be decided by the commission.

Baron Shidehara said that the question of whether something was an improvement or not would naturally be involved in the question of how much China should pay; it would only have to be considered in connection with the question of valuation; there would be no need of settling that previously to actual valuation.

Dr. Sze said that such determination might precede valuation.

Baron Shidehara then proposed a formula reading: "----- on any matter connected with the valuation of the railway properties, etc."

Dr. Koo asked whether Baron Shidehara would have any objection to saying: "----- on any question connected with the transfer of the Tsingtao-Tsinanfu Railway properties or any question connected with the valuation of the railway properties."

Baron Shidehara wondered whether he might ask what Dr. Koo had in mind when he spoke of the question of transfer.

Dr. Koo said that he had nothing particular in mind. He had offered that suggestion merely to make sure that there was a machine ready in case of differences. The whole idea was to expedite the execution of the agreement and to prevent any difficulties even necessitating reference to their respective Governments.

Baron Shidehara said that he did not perceive the point Dr. Koo was trying to make. There could be no question of transfer unless it was a question of what property was to be handed over to China.

Dr. Koo said that mainly Baron Shidehara was in the right. However, divergences of view might arise. There might, also, be properties which would raise doubt. He could assure the Japanese delegates that he had entertained no hidden desires. He only thought that it would be wise to insert some provision in case of contingency.

Baron Shidehara asked whether the Chinese delegates would have any objection to taking off the whole paragraph 2 and embody the provision in the notes under contemplation. According to the original wording the joint commission would be intrusted with the task of taking valuation only. According to Dr. Koo's proposal, however, the function of the commission would go much further.

Dr. Koo said he would accept Baron Shidehara's suggestion with a slight modification which would read: "----- on any question relating to the transfer of the Tsingtao-Tsinanfu Railway properties and on any matter connected with the valuation of the permanent improvements thereon or additions thereto."

Baron Shidehara said that the whole wording of his original plan was to be modified to meet the Chinese wishes and proposed a formula, reading:

"A Sino-Japanese joint commission shall be appointed for the purpose of arranging technical matters connected with the transfer of the Tsingtao-Tsinanfu Railway, or with the valuation of the permanent improvements on, and additions to, the railway properties."

Dr. Koo asked if it was wished to superpose that sentence in the notes to be exchanged.

Baron Shidehara said that it was his intention to strike off the last sentence of paragraph 2 of his tentative plan and put it at the beginning of the exchanged notes.

Dr. Koo said that he would accept it if it would be agreed that the word "all" should be substituted for the word "technical."

Baron Shidehara pointed out that they were not going to revise the arrangement previously reached as to paragraph 2.

Dr. Koo said that all matters to be taken up by the joint commission would be technical, but that it was possible that difference might arise as to what were and what were not technical matters. Such question, for instance, as whether barracks and radio stations were railway properties or not might be considered technical or not.

Baron Shidehara said that he did not see any necessity for the suggested modification. Of course, it would be only technical matters that would come up before the joint commission.

Dr. Koo said that, while it was true that questions which were not technical would not be taken up, difference of opinion might arise as to whether certain questions were technical or not.

Baron Shidehara said that any matters larger than technical should, of course, be taken up by the two Governments.

Dr. Koo said that the nature and conditions of the transfer were to be determined largely by the two delegations right here, but the use of the word "technical" would cause unnecessary disputes within the commission itself.

Baron Shidehara said that it was not their intention to organize a joint commission for any purpose larger than technical questions. The commission would not deal with political or administrative questions. That was why it had been agreed that only an expert of a third power who had technical knowledge of those things should be consulted. Throughout the whole arrangement they had been talking of only matters of a technical nature.

Dr. Koo denied he had had any political matters in his mind. He would then suggest the phrase "all matters of detail."

Baron Shidehara agreed.

Dr. Koo then submitted the following:

"Should the joint commission fail to reach an agreement on any question relating to the transfer of the Tsingtao-Tsinanfu Railway properties stipulated in the agreement of ----- day, or on any matter connected with the valuation of the permanent improvements thereon or additions thereto as provided for in said agreement, such question or matter shall be taken up by the two Governments for discussion and adjustment by means of diplomacy. In the determination of the points at issue, the two Governments shall, if necessary, obtain recommendations of an expert of a third power, who shall be designated in advance in mutual agreement with each other.

"Should the two Governments fail to reach an agreement, the said points at issue shall be referred to arbitration by expert or experts of a third power or powers to be designated by mutual agreement between the two Governments."

Baron Shidehara, referring to the formula, said he objected to the phrase "in advance" in Dr. Koo's formula. He hoped that Dr. Koo would not stick to his idea in that respect. In making the provision they had only an extraordinary case in view. He was quite sure that the commissioners could agree on all matters of detail.

Dr. Koo observed that when he said "in advance" he meant that an expert of a third power should be chosen before the two Governments took up the matter.

Baron Shidehara said that he felt sure that if the two Governments took up any matter on which difference of views had occurred, they would be able easily to adjust it by compromise and there would be no need of calling in the assistance of an expert of a third power. That was why he said "if necessary."

Dr. Koo consented.

Baron Shidehara said that he did not see any meaning in the last paragraph of Dr. Koo's formula. In order to meet the Chinese desire, he had suggested his proposal, the meaning of which was that the Governments of Japan and China should decide any matter for themselves. His idea was not that an expert of a third power should decide anything. He would be asked only to aid with his recommendations.

Dr. Koo said what if the two Governments could not agree?

Baron Shidehara said that although the recommendations of the expert of the third power would, of course, be respected, it was, as a

matter of principle, the two Governments that would decide upon any matter about which the joint commission could not agree. He thought that in practice the arrangement would work very satisfactorily, and that there would seldom occur the necessity of calling in the help of a neutral expert.

Dr. Koo said that, not to prolong the discussion too much, he and his colleagues were disposed to agree to omit any reference to arbitration if the Japanese delegation, for their part, would agree slightly to change the phrase "an expert of a third power" to "an expert or experts of a third power or third powers." Inasmuch as some of the matters to be taken up would involve a great sum of money, the Chinese delegation desired to feel sure that there would be more than one expert.

Baron Shidehara signified consent.

Dr. Koo said that, with the understanding that the arguments of foreign experts should be respected, the Chinese delegation would consider this phase of the question as settled.

QUESTION OF LOAN.

Dr. Sze said that while the Chinese delegation considered it difficult to meet the Japanese views as regards the question of loan, he wondered, however, if Baron Shidehara would be good enough to elucidate his point first.

Baron Shidehara thought that his meaning was sufficiently clear. He wondered if there were any point which he might make still clearer.

Dr. Koo said that in order not to leave the position of the Chinese delegation undecided, they would propose to pay for the railway in cash. As for the mode of payment they would be pleased to discuss it with the Japanese delegation. The proposal of loan as formulated in the Japanese plan was not clear at all. If Baron Shidehara was prepared to elucidate various points of the proposal, he and his colleagues would be glad to hear it, without being understood that their desire for cash payment was going to be relinquished. The question of loan was only of secondary importance from their standpoint. It would arise only when it was definitely ascertained that the necessary fund for the payment required could not be raised.

Baron Shidehara said that while it might be a matter of secondary importance for China, it was with Japan one of the first importance. It was Japan's intention to retain in the railway a certain interest of the same nature and to the same extent as various foreign capitalists were actually allowed to have in regard to most of the Chinese railways.

Dr. Koo hoped that more light would be thrown on the point of Japan retaining an interest in the railway. He would appreciate if it could be made clearer why Japan should be particularly anxious to retain an interest in the railway.

Baron Shidehara said that what he had meant by interest was only interest of the same nature as was granted to other foreign capitalists in regard to Chinese railways. He did not know whether he had made himself clear, but his proposal was really a compromise plan. Perhaps he might succinctly recapitulate the position of Japan in regard to the Shantung question. At first Japan had believed, and still believed,

that she had a legal title to the Shantung Railway and its appurtenant properties. China had concluded a treaty with Japan in 1915 in which she recognized in advance whatever agreement Japan might make with Germany in regard to the question of Shantung, and China had expressed her satisfaction with that arrangement; but in order to meet China's point of view, Japan made in 1918 certain important concessions in regard to this question. She proposed the plan of joint enterprise. The plan was at that time accepted by the Chinese Government. China again expressed her satisfaction with the plan of 1918. As a further concession the Japanese delegation were now proposing that the railway properties should be handed over completely to China, Japan retaining only such interests in the railway as were in many cases granted to other foreign nationals. If the plan of the loan agreement was now rejected by China, if she insisted upon the complete elimination of Japanese interest in the railway, the public in Japan would naturally ask what was the reason that Japan should be denied a treatment of equality with other foreign nationals, why Japan should be subjected to a discriminatory treatment. And there would naturally be created grave misgivings in the popular mind in Japan. He was afraid that that would be very deplorable for the future relations of the two countries. The Japanese delegates were already aware that they would be confronted with very grave difficulties in giving up the original plan of the joint enterprise. In the interests of a satisfactory and speedy solution of the question, they had taken upon themselves the whole responsibility in proposing this plan ad referendum. He hoped the Chinese delegates would take that into serious consideration. That proposition, which was really a plan of compromise, was designed to meet their mutual positions as far as possible. He hoped and desired that the Chinese delegates would not insist upon the complete elimination of Japanese interests from the railway. Briefly, that was the position of Japan at present.

Dr. Sze said that he fully appreciated the difficulty of the Japanese delegates in meeting the Chinese point of view in this question of the railway. If the Japanese delegates entertained any anxiety at all as to the interests of the merchants using the railway, then he would like to be informed on that point. The Chinese Government would see that all facilities were afforded the Japanese merchants. When the Chinese delegation had proposed a cash payment for the railway they had no idea of discriminating against the Japanese interests. The idea of cash payment had come to the mind of the Chinese delegates only recently because they had received an offer from the Chinese bankers. At present, however, China might be, or might not be, able to make a cash payment. That was still an open question. If the Japanese delegates felt any anxiety as to the use of the railway, the Chinese delegates would do their best to meet the Japanese wishes by way of safeguarding the interest of the Japanese. The only difficulty with which they were confronted was that they might be criticized at home in that while they could use their own money, they were forced to use other persons' money. The Chinese delegates had no intention of discriminating against anybody.

Baron Shidehara said that it was not exactly what he had in mind. The purpose of the Japanese proposition was to have a certain interest in the railway and not merely to protect and safeguard the commercial interests of Japan. It was principally for the purpose of meeting

criticism which would be made in Japan. As a matter of history, the Japanese proposal was really a great compromise. Japan had made concessions three times. At first Japan had conceded the point in regard to the whole property rights of the railway. She had had a clear title to the Shantung Railway and its appurtenant properties, but she had proposed a plan of joint enterprise with China which meant that China should have half interest and half share in the railway properties. Now, she was again proposing a new plan by which to restore the whole property rights completely to China. It might not be out of place for him to point out that China still had a large amount of railway loans, for some of which she had great difficulty in paying the interest, not to mention the principal. In the face of that situation, China proposed to buy the Shantung Railway outright. Very naturally, the Japanese people would ask why Japan should be excluded from having an interest in the Shantung Railway while China still had considerable amount of loans of which both principal and interest remained unpaid. If China insisted upon the purchase of this railway, it would be difficult for the Japanese people to escape the conclusion that China did not like Japan to have any interest in it. The Japanese delegation fully realized the position of their Chinese colleagues, but at the same time they hoped that their own position would also be appreciated. The original instructions they had were to stick to the plan of joint enterprise. Even in regard to the tentative plan proposed by them there would be difficulty in persuading the Japanese people. If the Chinese delegates insisted upon eliminating Japanese interest in the Shantung Railway, he was afraid that very serious misgivings might be created in the Japanese mind. This question of loan, therefore, was the point upon which he and his colleagues placed the greatest importance. Should it not be accepted, he did not know if there might be any other plan which they could accept and justify themselves before the public opinion of Japan. He hoped that the spirit of compromise in which the tentative plan had been proposed by the Japanese delegation would be appreciated and that they would be met halfway. The Chinese delegation had been met more than halfway. In fact, Japan had been making concessions successively.

Dr. Koo said that far from the Chinese delegation entertaining even the semblance of a discriminatory treatment for the Japanese, they had proposed to pay in cash really out of their desire to cement the relations between the two peoples. As the Japanese delegation were doubtless aware, this whole Shantung question had exercised the minds of the two peoples to such an extent that it was thought desirable to remove, once for all, this cause of prolonged misunderstanding. Therefore, in making the proposal, the Chinese delegation had in view the larger interests of both Japan and China. They simply desired to promote better neighborly relations with Japan. He hoped that the Chinese position would not be viewed as in any way aiming at discrimination either against Japan or her people.

Baron Shidehara said that the fact remained that China had not eliminated the interests of foreign nationals with regard to many of her railways, while she now proposed entirely to exclude Japanese interests from the Shantung Railway. The Japanese people would very naturally come to the conclusion that there was, in fact, dis-

crimination against them, and they would naturally wonder what was the real meaning of this practical discrimination against them. There was no denying the broad fact that only Japanese interests were going to be eliminated, while other railways in which foreign nationals were interested had not been even touched.

Dr. Sze said that this idea of buying out foreign interests was not confined to the Shantung Railway. In point of fact, the Belgian interests in the Peking-Hankow Railway had been paid back. Thus the proposal in regard to the Shantung Railway was not the first instance of this kind in the railway history of China.

Baron Shidehara said that the very special circumstances which attached to the Shantung Railway—the history of the question—should be taken into consideration. He did not, but the public might, doubt why China in the present situation should propose to buy outright the railway property. It would be difficult for him to explain why China should do so, while at the same time a large amount of debt was still in arrears, even in regard to various loans supplied by Japanese financiers who had great difficulty in getting payment for not only the principal but the interest. It was inevitable that the public opinion in Japan would strongly doubt the motive of China's action.

Dr. Sze said that this idea of cash payment only had come to the Chinese delegation when offers had been made by Chinese bankers. They would naturally complain if Japanese financiers, instead of native bankers, should be asked to advance the money needed. It was true that China was already heavily in arrears in regard to foreign loans. He thought it was all the more reason why no more railroad loans should be contracted with foreign financiers. It was understood that this Shantung Railway was very profitable. The Chinese bankers would naturally be desirous to participate in the profit, and it was difficult for the Chinese Government to refuse this very legitimate desire of their nationals. The Chinese delegation at the same time appreciated the public sentiment in Japan, so they would propose a compromise. They could not agree to the Japanese proposition concerning loans, but, on the other hand, they should be glad to do their utmost to remove any cause for misgivings that might exist on the score of the Japanese trade in Shantung.

Baron Shidehara said that the Japanese people would wonder what could be the motive of the Chinese merchants to buy the Shantung Railway outright without leaving any interest for the Japanese. It would be said that it was because of their desire to drive away the Japanese from the railway.

Dr. Sze said that with bankers of all countries the question of interest was the most important consideration. The Chinese bankers knew the Shantung Railway to be a profitable concern. They saw it mentioned in a recent issue of the China press that the railway had made 16,000,000 yen last year. That was the underlying motive of the offers of the Chinese bankers.

Dr. Koo said that, speaking from the broader point of view of the good neighborhood between the two countries, he would consider it very wise to settle once for all this question of reparation for the Shantung Railway, so that the one cause of the unfortunate feeling between the two peoples might be dissipated. He hoped that if the whole question were viewed in that light, the Chinese proposal would

not only meet with the approval of the Japanese Government but eventually with that of her people as well.

Baron Shidehara said that, in his opinion, the misunderstanding between the two peoples would be increased instead of being dissipated by the suggested arrangement. He thought he had made the Japanese position sufficiently clear. If there could be no agreement in regard to paragraph 3 of his tentative plan, it would be impossible for him and his colleagues to take the whole responsibility in making to the Japanese Government a recommendation contrary to their explicit instructions. He hoped that his Chinese friends would reconsider their position. The Japanese delegation placed the utmost importance upon the point at issue. Much as they regretted it, they would not be able to agree to the plan of purchase.

Dr. Koo said that he would like his Japanese friends to help the Chinese delegation so that they might not be placed in a position vis-à-vis their people at home of being obliged to take a loan which was not wished by the Chinese people, but which they felt they might be able to furnish themselves. While realizing the position of the Japanese delegation, he at the same time would ask them to consider the difficulty of the Chinese delegation as well. The proper thing to be done in this situation was, to his mind, to try to work out some plan which would relieve the Japanese delegates of their difficulty without placing the Chinese delegates in a trying position.

Baron Shidehara hoped that it would be realized that he and his colleagues had sincerely done their very best. If even this modest plan should not be agreeable to the Chinese delegation, he did not know what could be done with the whole question.

The press communiqué was issued in the annexed form (Annex I), and the meeting adjourned at 6 p. m. until 2.30 p. m. to-morrow.

WASHINGTON, D. C., *December 15, 1921.*

SJC-13.]

ANNEX I.

DECEMBER 15, 1921.

[For the press.]

Issued by the Chinese and Japanese delegations.

Further progress was made in the thirteenth meeting of the Chinese and Japanese delegates relative to the question of Shantung in their discussion about the Tsingtao-Tsinanfu Railway. The meeting was adjourned at 6 p. m. until 2.30 to-morrow afternoon.

FOURTEENTH MEETING.

Fourteenth meeting, held in governing board room, the Pan American Building, Washington, D. C., at 2.30 o'clock in the afternoon of Friday, 16, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. C. Yen, Mr. Tsai, Mr.

Tung-Fan Hsu, Mr. C. H. Zee, Mr. Telly Howard Koo, Mr. Chuan Chao.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

THE QUESTION OF THE RAILWAY LOAN.

Dr. Koo said that the stage had been reached at the end of yesterday's discussion where, on one hand, the Chinese delegation, in view of the special difficulties confronting them, urged that the payment for the Tsingtao-Tsinanfu Railway properties should be made in cash, and on the other the Japanese delegation on their part made it equally clear that on account of the difficulties confronting them, the best method of payment for the railway properties would be through concluding loan contracts with Japanese capitalists. He and his colleagues took this matter into very careful consideration. While they saw a great deal of difficulty in finding some way out of the difficulties on both sides, they were happy to say that they had found an arrangement which he hoped might be acceptable to the Japanese delegates. The underlying idea of that proposal was to meet the wishes of the Japanese delegation in substance without altogether overlooking the position hitherto taken by the Chinese delegation. In substance, the proposal was that China would pay for the railway not in one cash installment, but in six installments, extending for three years, at intervals of six months each. Only at the end of three years from the transfer the railway would be entirely redeemed. The first installment would be paid in cash. For the remaining five installments, the Chinese delegates proposed that the Chinese Government should deliver to Japan the amount in treasury notes secured on the revenue of the Tsingtao-Tsinanfu Railway. Pending their maturity it was proposed that interest at a reasonable rate should be paid. After the first payment, the five remaining installments would be paid every six months. In order to give evidence to the earnestness of the Chinese delegates to preclude any possible ground of anxiety on the part of the Japanese merchants, as had been stated by Dr. Sze the previous day, China would, in the operation of the said railway, pledge herself not to practice any discrimination against the traders of any foreign nationals. That was the gist of the new plan of the Chinese delegation which they submitted for the consideration of their Japanese friends. He hoped that it would be found acceptable, in consideration of the spirit in which it had been formulated.

Baron Shidehara asked for a copy of the Chinese proposal.

Copies of the Chinese proposal were distributed (Annex I).

Baron Shidehara said that upon just a brief examination of the new Chinese proposal, he found that it did not differ much from what had been proposed at the previous meeting. That was simply a proposition of extending the payment for three years. That would

prove more favorable to China than an immediate payment in cash. He feared that the Japanese point of view in regard to the question had not been made entirely clear to his Chinese friends. It must be pointed out that when Japan had proposed the plan of joint enterprise, she had receded halfway from her original plan of full ownership and operation by Japan of the railway which she had believed she was legally entitled to under the terms of an express treaty provision. When, lastly, the Japanese delegates had proposed on their own responsibility a plan of the railway loan agreement in lieu of a plan of joint enterprise, they had committed themselves to the complete abandonment of their original plan. The proposal that Japan should retain a certain interest of the same nature and to the same extent as other foreign nationals were permitted to hold in other railways in China did not interfere with the full ownership or the full operation of the railway by China. She was to acquire the full control, the full ownership, and the full operation of the railway, and Japan simply wanted to reserve to herself a certain interest of such description as was practically of common application to all or most of the railways in China.

Now, it appeared that China desired to make the last proposal of Japan a fresh starting point for a mutual compromise arrangement, whereas, for the Japanese part, the last proposal was, in fact, a complete surrender of the original plan of joint enterprise. It was now desired of the Japanese delegates that they should once more meet the Chinese point of view; should concede halfway starting from the last proposal they had made. In entire frankness, he would like to say that such assertion on the part of the Chinese was hardly fair or just to the Japanese delegation. In order to reach a full understanding of this question, it might be useful to explain the Japanese plan in a more concrete form. He should be perfectly frank in his explanation, and he trusted that his frank expression of views in regard to the question would not be misunderstood. He had been informed by men who had closely surveyed the situation of the Chinese railway that there were three distinct features in Chinese railways which struck foreign observers. In the first place, Chinese railway administration did not undertake any responsibility for the loss of goods intrusted to its care. Consignors of goods, not being able to rely upon the railway officials, usually sent their own hired men to freight cars to take care of their own goods. In the second place, the distribution of freight cars and of space in freight cars for the consignors of goods was made in a very arbitrary way, and was very easily influenced by corruption. In the third place, the military authorities and the individual soldiers very frequently interfered with the proper management and working of the railways, without any regard whatever to the interests of the public and to the nature of the service to be afforded by these organs of public utility. In the circumstances, the practice had gradually grown up for foreign nationals interested in Chinese railways to ask China to engage and employ such chief engineers, traffic managers, and chief accountants as they recommended. What Japan would like to ask now was nothing more than what was generally accorded to foreign capitalists. The Japanese delegates would like to propose, in the same way as was the case with other Chinese railways, that those officials—chief engineers, traffic managers, and chief accountants—

should be engaged and employed by China in the Shantung Railway on the recommendation of the Japanese capitalists. It was understood that those officials would, of course, be subjected to the supervision of the Chinese higher railway authorities. It was proposed that China should obtain full ownership, control, and operation of the railway, and that those officials whom Japanese capitalists might recommend should be placed under Chinese supervision and control. This plan, he was quite sure, would not interfere in any way with the Chinese control, administration, and operation of the railway, nor with the plan of the unification of the Chinese railways which he understood China had now in view. He felt that the Japanese proposition was entirely fair and just to both sides. The proposal the Chinese delegation now submitted was so different from what the Japanese delegates had in mind, and he regretted that he hardly found his way clear to accept it.

Dr. Koo, addressing Baron Shidehara, said that after listening to his interesting and frank observations it might perhaps be useful if he should try to elucidate further the Chinese point of view with reference to some of the points which Baron Shidehara had raised and to make it as clear as possible. He should perhaps follow the order adopted by Baron Shidehara. In the first place, with regard to the legal status of the railway, it was hardly necessary for him to go into a detailed discussion as to the views he and his colleagues entertained. It would suffice to say that the very fact that the two delegations were engaged in these conversations with a view to settling the questions of Shantung would seem to show that the status of the railways was to say the least, more or less uncertain. The question was more theoretical than practical, at least for the immediate purpose both the delegations had in view. So he would pass on to the new Chinese proposal. Judging from the observations Baron Shidehara had made, he feared that the spirit which had animated the Chinese delegates in making their new proposals had not been fully appreciated. They could well understand the Japanese desire to retain a financial interest in the Shantung Railway properties. It was in order to meet that desire as far as possible, without at the same time overlooking their own position, that the Chinese delegation offered the new proposals. If they had not been able thus far to find it possible to propose any plan which would admit of the retention by Japan of a larger share in the Shantung Railway, he hoped it would not be viewed as if they had been looking to discriminate against the Japanese. As a matter of fact, no foreign power possessed greater or more important railway interests to-day in China than Japan, if the South Manchuria Railway was taken into consideration.

In the second place, with reference to the observations Baron Shidehara was good enough to make concerning the administration of the present Chinese railways, he would say that, of course, the three points mentioned by him appear to him and his colleagues rather severe strictures. He, for one, felt that these were hardly deserved. He had just been informed by one of the experts of the Chinese delegation that the practice of holding shippers responsible for the goods consigned had been done away with, the railway administration having some time ago promulgated regulations placing responsibility upon the railway for freight transportation.

With regard to distribution of cars and the granting of space to various shippers, his information and impression were that there had been very little criticism on that point. On the contrary, the Chinese railway administration had from time to time been complimented on the fact that cars were being utilized to the utmost, and moreover by a new regulation shippers were not allowed to keep cars indefinitely—not more than 24 hours. If there had in fact been unsatisfactory service it must have been due, more than to any other cause, to the fact that at present there was a shortage of wagons and cars on account of the transportation of soldiers, etc. The general point which he desired to make clear was this, that all the observations made by Baron Shidehara had been made in reference to Chinese railways in general. Most of these railways were being administered with the assistance of foreign chief engineers, traffic managers and chief accountants. If the observations were founded on facts, it might be difficult to say what share of the responsibility would fall upon the shoulders of these foreign officials. He did not, however, wish to labor that point too much.

The practice of employing foreign experts had grown up, not from any dissatisfaction on the part of foreign financiers but from the fact that in building railways China had had to borrow foreign capital and that, in making railway-loan contracts, foreign bankers had used the opportunity to ask for these various offices. But in the case of the Shantung Railway loan, the road was already in operation. It evidently stood in a different class from the railways which were merely projected and for which the necessary fund for construction had to be financed. Besides, as regards the operation of the Shantung Railway, though he was not in a position to make any definite statement, he believed that the Chinese Government meant to utilize such foreign expert assistance as might be found already in operation, for no one desired the efficiency of the Shantung Railway service more earnestly than China herself. He would, therefore, urge his colleagues from Japan not to misconstrue the motives underlying the new proposal of the Chinese delegation. They had made an honest effort in order to meet the wishes of the Japanese delegation in regard to this aspect of the railway question, in the discussion of which they had already been engaged for a few days. He had just been reminded by one of his colleagues of the efficiency of the Chinese in book-keeping. A notable instance was that one of the railways controlled by Japanese capitalists in South Manchuria—a branch of the South Manchuria Railway—had been put in order through the assistance given by the Chinese Government.

Baron Shidehara said that the observations he had made upon the actual conditions of the Chinese railways referred principally to those railways which were exclusively under Chinese administration, and the experts who had told him of the situation were men very well acquainted with the actual state of affairs in China. These were matters of opinion, but what he desired principally to call to the attention of his Chinese friends was this, that he could not well understand why this new Chinese proposal was considered different from the plan they had offered the day before. This plan would, in fact, give China a better position than the plan of payment in cash, for under this plan the payment was simply to be deferred three years. Japan would not be allowed to retain any interest whatever

in the railway; simply the payment was to be secured upon the revenue of the railway properties, but the last installment would be due on the expiration of three years after this agreement came into effect. He did not see how that could be a compromise at all between the Japanese and the Chinese proposal. He would appreciate it if Dr. Koo could make the new plan a little clearer; if he could explain the difference between this proposal and the cash payment.

Dr. Koo said that the obvious difference lay in the period of three years. The Chinese delegation had understood from Baron Shidehara's observations the day before that the Japanese delegation desired to satisfy Japanese public opinion by retaining financial interest in the Shantung Railway. It was to meet that wish that the Chinese delegation now proposed to prolong the payment by dividing it into six installments. By that arrangement Japan would have three years during which she would enjoy a considerable interest in the railway.

Baron Shidehara asked what he meant by considerable interest.

Dr. Koo said that after the first installment had been paid Japan would still have five-sixths interest in the railway. He wondered if that looked an insignificant interest to Baron Shidehara.

Baron Shidehara said that he did not see any compromise on the part of China. The postponement of payment was in China's interest and not in Japan's. The fact that the payment would be secured on the revenue of this railway seemed hardly to meet the desire he had expressed.

Dr. Koo said that Baron Shidehara would not, perhaps, overlook the fact that the securing of the payment on the revenue of the railway, if only for three years, would greatly contribute to the interest of Japan in regard to the railway.

Baron Shidehara said he hardly could admit that.

Dr. Koo asked if it was meant that cash payment was preferable; when Baron Shidehara said that the new proposal would be less favorable to Japan because it gave more time to China in which to get the money for the payment.

Baron Shidehara said that this new proposal comprised no concession on China's part, while on Japan's part it comprised complete surrender to the Chinese point.

Dr. Koo said that in the original proposal of the Japanese delegation they desired China to take loans from Japanese financiers. All loans had to be terminated sooner or later. The fact that all the unpaid portions of China's payment should be secured under this new plan upon the revenue of the Shantung Railway would give every possible interest to Japan in the railway.

Baron Shidehara observed that as he looked at a list of railway loans of China he noticed that most of them had a period ranging from 40 to 50 years. He did not find a single loan the term of which was only three years.

Dr. Koo remarked that, as he had said a little while ago, all of China's railway loans had been contracted for lines merely projected and none for lines already constructed. The Tsingtao-Tsinan Railway stood in a different class from other railways now in operation. He felt sure that Baron Shidehara would not fail to see the difference.

Baron Shidehara desired that Dr. Koo would be good enough to explain what difference there was in fact between the Shantung Railway and the other Chinese railways now in operation.

Dr. Koo said that Baron Shidehara had referred to other railway loans, and so he had answered that all railway loans were made not for buying lines already constructed, but for lines which were projected and for which the necessary fund could not be obtained locally.

Dr. Sze said, to cite a few instances, China had purchased the Peking-Hankow Railway and also the Canton-Hankow Railway.

Baron Shidehara said that there was one point on which his observation the day before seemed to have been misunderstood. In the new proposal of the Chinese delegation it was said that the Chinese Government would give assurance that there would be no discrimination against the interests of Japanese traders, but that was not the kind of discrimination he had in mind. What he meant was discrimination against Japanese capital.

Dr. Koo said that he saw Baron Shidehara's point. He thought the last point of the Chinese proposal needed no mention in view of the principle of equal opportunity for the commerce and industry of all nations in China, so he would drop that point.

Baron Shidehara reminded Dr. Koo that according to the first Chinese proposal it would seem that Japanese capital was to be excluded.

Dr. Koo said that that would not necessarily follow. When the Chinese delegation had proposed cash payment they had had in mind merely the desire to raise the money locally so the charge of discrimination would not occur until it was made known that China desired to secure funds in foreign countries other than Japan.

Baron Shidehara said that, as he had explained several times, Japan's public opinion would certainly look with misgiving upon any plan which excluded Japanese interest from the Shantung Railway, while, in regard to many other railways, China actually permitted foreign capitalists to hold similar interest, and while a large amount of loans provided by Japanese capitalists were still in arrears.

Dr. Koo said that as his colleague, Dr. Sze, had observed, the money China proposed to pay to Japan was to come from Chinese bankers; they had told the Chinese Government that they were in a position to finance this railway property in Shantung. As regards loans on which interest payment had not yet been made, the matter was entirely different. He had no accurate knowledge of the matter, but personally he thought the reason why the Chinese bankers did not offer financial assistance to their Government to pay the outstanding loans was, perhaps, because of the circumstances under which these loans had been negotiated.

Baron Shidehara said that the terms Japan had offered in regard to the whole Shantung question were quite generous and liberal, even taking only the financial phase of the question into consideration. For instance, the Japanese delegation had offered to hand over the docks, wharves, warehouses, etc., without any charge whatever. According to the customs report made by the former customs commissioner at Tsingtao, the estimated value of those docks and warehouses amounted to 50,000,000 gold marks, and they were now to be offered to China without any charge.

Dr. Sze said that he understood improvements upon these properties were to be paid for; that it was only those which the Germans had surrendered to Japan that Japan proposed to hand over to China without charge.

Baron Shidehara reminded Dr. Sze that German property was not Chinese property. He said he had simply pointed out that China was going to derive considerable benefit from the terms of the arrangement offered by Japan. In any case, he didn't think it necessary to go much further in discussing the terms the Chinese delegation had proposed. They were so different from what the Japanese delegation had proposed. He regretted to say that they were hardly acceptable to him and his colleagues.

Dr. Koo inquired in what respect they were unacceptable.

Baron Shidehara said that the Chinese proposal was unacceptable practically in all respects. There was no concession on China's part, while there would be a complete surrender on Japan's part.

Dr. Koo said that what the Chinese delegation had understood their Japanese colleagues to attach the greatest importance to was financial interest—

Baron Shidehara interrupted Dr. Koo by saying, "financial interest of the same nature and to the same extent as other foreign capitalists had in most of the Chinese railways."

Dr. Koo said that in view of the great importance the Japanese delegation had attached to financial interest, the Chinese delegation, out of the spirit of compromise, had proposed to create a period of three years. It was not, in his opinion, an inconsiderable interest. Although limited to three years, he hoped it would not be construed as denying Japanese interest in railways in China in general. As he looked at the table of outstanding railway loans of China in 1920, Japan's amount was yen 21,600,000, the second largest in the table.

Baron Shidehara said that the proposal for securing the payment on the railway revenue for three years, if it was interest at all, was not the sort of interest which the Japanese delegates had in mind. That was entirely different from that which China had already given to foreign nationals.

Dr. Koo said that railway revenues had been offered as security for various foreign railway loans. For instance, the surplus revenue of the Peking-Mukden Railway was assigned for the security of the Shanghai-Hangchow-Ningpo Railway. He was glad that Sir John Jordan had borne testimony to the fact that the financiers concerned in that loan were very much satisfied.

Dr. Sze said that the revenue of the Peking-Mukden Railway had also been assigned as security for Shanghai-Pukow Railway.

Baron Shidehara feared that perhaps he had not made himself clear. He wanted to say that if what Dr. Koo pointed out was any interest at all, that was exceedingly less than what China had already given to foreign nationals.

Dr. Koo said that Baron Shidehara seemed to think very little of the interest he (Dr. Koo) had pointed out, though that involved millions of gold marks. He inquired in what way Baron Shidehara desired to have the Japanese interest augmented.

Baron Shidehara replied that if Japan had accepted cash payment it would have been better—the postponement of payment would not be of any value to Japan.

Dr. Koo wondered whether Baron Shidehara thought that the period was too short.

Baron Shidehara stated that was not the only point. As he said a few moments ago, the Chinese delegates seemed to refuse some of the conditions proposed, namely, the engagement by China of a traffic manager, a chief engineer, and a chief accountant from Japan.

Dr. Koo said that in order to maintain the highest efficiency in the operation, it would perhaps be natural for the Chinese Government to enlist foreign expert assistance. The proposed arrangement did not necessarily preclude the Chinese Government from enlisting such foreign assistance as might be desirable in the operation of the railway. Did he understand that Japan would like, in order to increase her interest, to have a chief engineer—

Baron Shidehara intervened and said, a chief engineer, a traffic manager, and a chief accountant. He wondered whether Dr. Koo had said that his proposition was not intended to preclude the engagement of a Japanese engineer, traffic manager, and chief accountant in the service of the railway.

Dr. Koo stated that what he had said was that it did not necessarily preclude the employment by the Chinese Government of any foreign nationals. In order to secure efficient operation of the railway, it might be desirable for the Government to utilize such foreign expert assistance as was available.

Baron Shidehara supposed that the Chinese delegates could not go so far as to say that they had no objection to engaging Japanese experts.

Dr. Koo said that, if it was found necessary, the Chinese Government would naturally utilize such foreign assistance as was already done in connection with various Chinese railways.

Baron Shidehara supposed, however, that the Chinese delegates could not commit themselves definitely to that arrangement. He well understood that the present arrangement did not preclude the Chinese Government from engaging some foreign expert assistance, but he would like to ask if there was any objection on the part of the Chinese delegation to making such an arrangement.

Dr. Koo, after a few moments' consultation with his colleagues, asked Baron Shidehara what was the point of his question, which he had failed exactly to understand.

Baron Shidehara said that his point was whether the Chinese delegation had any objection to arranging with the Japanese delegation to engage the chief engineer, traffic manager, and chief accountant whom Japanese capitalists would recommend, in the Shantung Railway administration, of course, on the understanding that they would be under the supervision and control of the higher Chinese railway authorities.

Dr. Koo said that before he considered how to answer the question he would like to ask Baron Shidehara to elucidate the point a little further. He wondered whether it was in the mind of Baron Shidehara that that arrangement should have reference only to the period during which the payment for the railway properties had not been completed.

Baron Shidehara said that of course the arrangement had been proposed in that sense, but he had not agreed to the period of three years. He preferred a longer time.

Dr. Koo said perhaps it would be easier for the two delegations if they could reverse the order of discussion. If the Japanese delegates accepted three years, then the Chinese delegation would be ready to consider the other question, though they could not as yet quite commit themselves on that point.

Baron Shidehara said that he would propose to have the period fixed on the basis of the terms generally accepted in relation to railway loans with various foreign capitalists.

Dr. Koo said he desired to be pardoned for his repetition and redundancy in pointing out the difference between this and other lines. The periods of loans for other lines, it was true, were much longer than three years. That was, however, due to the fact that the lines were much longer, the amount of loans much larger, and the construction took longer time. The construction of the Peking-Hankow Railway, for instance, had taken nearly 10 years. His colleague had just passed him information that another reason for the longer terms was that it was difficult to ascertain for the people how soon the railway would be able to have sufficient traffic to get revenue to meet the loan services.

Baron Shidehara said that he understood that when the railway was under the German régime, there was no fixed time for the repurchase of the railway.

Dr. Koo said that that was true, but there was an agreement to the effect that the Chinese Government could, at any time, negotiate as to the purchase of the railway.

Baron Shidehara said that the Chinese, nevertheless, had not initiated such negotiations.

Dr. Koo said that they had not in the past.

Baron Shidehara said that was the point. China had been at liberty to start negotiations with Germany any time, but the Germans might very well have said that they would like to have the railway for 40, 50, or 99 years. Since there had been no previous agreement made in that regard, China would not have had the right to purchase back the railway from Germany.

Dr. Koo said, of course, it was not at all improbable that the Shantung Railway properties, after being taken over by China, might be operated jointly with the Tientsin-Pukow line in order to minimize the cost of operation. If that course were to be pursued, foreign engineers of that line might be asked to take care of this line in Shantung also. Of course, if the Japanese delegates had in mind some one from Japan, that was another matter.

The two delegations were really anxious to make progress in the discussion. If Japan could accept the period, then they might consider other points to which Baron Shidehara attached so much importance.

Baron Shidehara said that he did not mean to be unreasonable, but the period of three years was so short that he could hardly consider it.

Dr. Koo said that in fixing the period of the loan, he would ask the Japanese delegates to take into consideration the state of public opinion in China. The Chinese delegates had really tried to find a way out of their present difficult position.

Baron Shidehara said that in that point the Japanese delegates were in the same difficulties. He hoped that the Chinese delegates would be able to act with determination. If the two delegations were to follow public opinion too strictly, they would not be able to reach a solution satisfactory to both sides. As he had said before, the list of the more recent Chinese railway loans indicated that from 40 to 45 years was their common term.

Dr. Koo wondered whether Baron Shidehara did not choose the longest ones.

Baron Shidehara said that he had been alluding to loans concluded since 1913. The Pukow-Sinyang Railway had a term of 40 years; the Yamchou-Chunking Railway, 50 years; the Nanking-Hunan Railway, 45 years, and the Shansi-Hunan Railway, 40 years.

Dr. Koo said that all those were building lines. They had merely been projected and the construction had not been completed.

Baron Shidehara said that he did not mean to insist upon obtaining the same terms in regard to the Shantung Railway as those regarding other railways. He was not asking for anything unreasonable, but the term of three years was so short, so different from what the Japanese delegates had had in mind, and they could hardly give consideration to the present Chinese proposal.

Dr. Sze said that the Shantung Railway had already been completed; therefore, he did not think that a period of three years was so very short. In the case of the Tientsin-Pukow Railway, there was a provision as to repurchase, but 10 years were spent in its construction.

Dr. Koo said that, in determining the period, the fact should be taken into consideration that the Shantung Railway had been completed and had always remained out of China's hands. Three years from now, that was, in 1924, it would have been 22 years from the time when the concession was made, and 17 years from the time of its construction. Three years, therefore, should be a reasonable period.

Baron Shidehara said that, at the same time, it must be pointed out that the Japanese delegates had made such considerable concessions successively and receded from their original position to meet the Chinese wishes. If the period which had elapsed since the Sino-German agreement in 1899, namely, 22 years, was deducted from the average period of the more recent foreign railway loans standing at 45 years, there would remain 22 or 23 years.

Dr. Koo said he was sure Baron Shidehara did not consider that a reasonable period.

Baron Shidehara said that he had been speaking of loans contracted since 1913 and he found that the average period was about 45 years.

Dr. Wang said that, according to his computation, the average term, taking 17 different railway loans, would appear to be 33 years.

Baron Shidehara asked what loans he counted.

Dr. Wang handed to Baron Shidehara a list of the loans (Annex II).

Dr. Koo said that he did not wish to hurry Baron Shidehara, but while the figures might be desirable, the average would not be of so much help. The various contracts had different features; they differed not only in themselves, but also according to the districts

traversed by the lines. For instance, a loan was floated in 1914 for the construction of the Nanking-Hunan Railway. While the term was fixed for 40 years, the period of repurchase was fixed at 15 years after the loan contract was concluded. In the present case construction was completed in 1905; therefore, 16 years had already elapsed. If 3 years were added, it would already be 19 years. Three years was not unreasonable, even from the point of view of the existing railway contracts.

Baron Shidehara said that as regards the Shantung Railway the German Government had the right to purchase it after a term of 60 years, but China had no right to repurchase.

Dr. Koo said that Baron Shidehara was, perhaps, referring to the charter of the company, but the Shantung Railway Co. had made an agreement with the Chinese Government on March 21, 1900, in article 28 of which the right of purchase was invested in the Chinese Government in explicit terms.

Baron Shidehara said that, nevertheless, the Chinese Government had not tried to purchase the railway.

Dr. Koo said that would not prevent the Chinese Government from holding the right to purchase.

Baron Shidehara said that, indeed, that would not prevent the Chinese Government from proposing to purchase, but there was no obligation on the part of the German Government to sell.

Dr. Koo said that that was true. But he hoped that Japan would not be in the position of Germany. He thought that Japan was a friendly power.

Baron Shidehara said that in that case he would not stick to the point of the German term.

Dr. Koo said that he hoped that the Japanese delegates would accept three years. Then the Chinese delegation would be disposed to discuss other aspects of the question to which Baron Shidehara attached so much importance.

Baron Shidehara said that, frankly, he was afraid that a three-year period was not at all acceptable to the Japanese delegation.

Dr. Koo asked what would, then, be Baron Shidehara's view as to a reasonable period.

Baron Shidehara said that he found the average period for railway loans of comparatively recent dates to be 45 years. Were they to deduct therefrom 22 years, which represented the number of years since railway concession was made, there would remain 23 years. He thought that would be a reasonable period.

Dr. Koo said that according to that basis of calculation China ought to have repurchased the railway a few years ago. Take, for instance, the Nanking-Hanchow Railway. The term was fixed at 45 years, but according to article 6 of the contract the right of purchase was provided for as becoming effective after 15 years. Therefore it appeared that the Shantung Railway ought to have been sold to China some years ago. An average period would then not be useful as a guidance in respect of their present discussion. What would be a useful guide was the period allotted for redemption. In the present case the contract was made in 1899; therefore already 22 years had elapsed. If three years were added to that, it would make already 25 years.

Baron Shidehara said that they were discussing the question of the loan and not redemption.

Dr. Koo said that even 15 years could not be taken as a standard. The term fixed for the Nanking-Hanchow Railway was about the longest. In the case of the Tientsin-Pukow Railway the term was 10 years after the date of the loan.

Baron Shidehara asked whether, considering that when the railway was in the hands of the Germans no term was fixed for purchasing back from the Germans, and considering further that the railway had never been Chinese property, whether it would not be possible for the Chinese delegation to accept the period of 23 years as the term of the loan.

Dr. Koo said that Baron Shidehara's suggestion did not take into consideration the fact that in most of these railway contracts there were provisions for the repurchase or redemption after a comparatively short period from the date of the loan.

Baron Shidehara said that that period represented the time in which the loan could be redeemed. The terms of the loan itself might be different from the terms of redemption. Suppose a period of 23 years was decided upon. Within that period, say, after 15 years, China might be at liberty to pay at once the remaining capital; so that, according to that arrangement, China could redeem the remainder of the capital after 15 years, but the period of the loan itself should be 23 years.

Dr. Koo said that he desired to ask a question, not to lend themselves to any misunderstanding. He wanted to know whether Baron Shidehara meant that the loan was a system of giving credit, as was here proposed.

Baron Shidehara replied in the affirmative.

Dr. Koo said that the idea suggested by Baron Shidehara of having two periods, one for the credit and one for complete redemption, appeared to the Chinese delegates to be a serviceable one, and in consideration of the acceptance by the Japanese delegation of the general basis of the Chinese proposal, he and his colleagues would accept Baron Shidehara's proposal, but they felt that the period was much too long.

Baron Shidehara asked how long a time Dr. Koo would propose as a reasonable period.

Dr. Koo said that while the Chinese delegates did not wish to appear as if they were bargaining on the point of the period, the term of the credit might be increased to 10 years, but with the understanding that any time after three years all the remaining unpaid portion of the sum could be paid on certain suitable notice. The Chinese delegates really felt that they were going out of their way to meet their Japanese friends, in order to make some progress in the discussion of that aspect of the railway question. In other words, instead of making the payment in six equal installments, all outstanding treasury notes might be redeemed on suitable notice after the lapse of three years. It was desired the reasonableness of that proposition should be recognized, it having been prompted by the sincere desire on China's part to meet the Japanese wishes.

Baron Shidehara said that the fact was that he and his colleagues, who were not financial experts, thought it better not to try to-day to arrive at a decision as to the period of the loan. At the same time

he had understood that the Chinese delegates were prepared to discuss the question of the engagement by the Chinese Government of a chief accountant, a traffic manager, and a chief engineer whom the Japanese capitalists would recommend. If the Chinese delegates would discuss only the period of the loan and did not desire to discuss the question of the engagement, he was afraid he could not proceed with the discussion of the question. The question of the engagement by China of the chief engineer and other experts was one to which the Japanese Government attached a great deal of importance.

Dr. Koo desired that the Chinese position should be clearly understood. The shorter the period of the loan, the more would the Chinese delegates be disposed to consider the question of the engagement of experts.

Baron Shidehara said that if the period was going to be only three years, it would be so short that there would be no need of discussing the engaging of experts.

Dr. Koo asked what Baron Shidehara's preference was.

Baron Shidehara asked if Dr. Koo was speaking of the period of the loan.

Dr. Koo answered in the affirmative.

Baron Shidehara said he had to consult financial experts and ask their opinion as to what would be a reasonable term.

Dr. Koo said that the Chinese delegates had proposed the period of three years to meet the Japanese wishes. If the question of period should be left uncertain, he and his colleagues would feel it difficult to justify themselves in proceeding with the question of engaging Japanese experts.

Baron Shidehara said that he did not mean to leave the question of period unsettled. The loan in question was to be furnished by Japanese financiers, and therefore it was necessary that their opinion should be had.

Dr. Koo said that that would be arranged between the Japanese Government and the Japanese capitalists. The Chinese delegates themselves were not financiers. They were not specifically authorized by their Government and they were not in a position to accept anything definite in this respect. They also would like to have the benefit of the advice of their financial experts.

Baron Shidehara proposed that they should adjourn until the following day and consider the matter overnight.

The press communiqué was issued in the annexed form (Annex III).

The meeting adjourned at 5 o'clock p. m. until 3 o'clock p. m. Saturday, December 17, 1921.

WASHINGTON, D. C., *December 16, 1921.*

SJC-14.]

ANNEX I.

DECEMBER 16, 1921.

Chinese delegation—Proposal concerning mode of payment.

A. The total amount of reimbursement for the Tsingtao-Tsinanfu Railway properties and their permanent improvements on and addi-

tions to them, as provided for in the agreement of this day, shall be paid in six equal installments.

B. The first installment to be paid within nine months after the coming into force of the agreement on the whole Shantung question and on the day on which the transfer of said properties is completed.

C. The remaining installments shall be paid in treasury notes secured on the revenues of the said railway properties.

D. The said notes shall be delivered on the same day on which the first payment is made.

E. The said notes shall be redeemed at intervals of six months in equal amounts.

F. Pending redemption, the said notes shall bear interest at ----- per cent per annum.

G. Chinese delegation is prepared to recommend to the Chinese Government to give an assurance that in the operation of the said railway there will be no discrimination against traders of any foreign nationality.

SJC-14.

ANNEX II.

DECEMBER 16, 1921.

Outstanding amounts of Chinese Government railway loans, December, 1921.

(List prepared by the Chinese Delegation.)

Name of loan.	Date of issue.	Rate.	Term of redemption.		Security.	Amount outstanding at December, 1921.
			Years.	Date.		
Peking-Mukden Railway..	1900	<i>Per ct.</i> 5	45	1944	Railway itself and its earnings.	£1,322,500.00
Shanghai-Nanking Railway.	1904	5	50	1953	.....do.....	2,900,000.00
Shanghai-Nanking land...	1914	6	10	1923	.....do.....	60,000.00
Tao-Ching Railway.....	1905	5	30	1935	General revenue of the Government and railway revenue.	635,600.00
Canton-Kowloon Railway.	1908	5	30	1937	Railway itself and its earnings.	1,368,000.00
Tientsin-Pukow Railway..	1908	5	30	1938	Likin of three Provinces....	4,125,000.00
Do.....	1911	5	30	1940	Likin of five Provinces.....	2,850,000.00
Shanghai-Hangchow-Ningpo Railway.	1908	5	30	1938	Surplus earnings of Peking Mukden Railway.	1,237,500.00
Industrial.....	1909	5	30	1938	.....do.....	4,250,000.00
Hukuang Railway.....	1911	5	40	1951	Likin and salt tax.....	5,954,845-13/7
Lung Hai Railway.....	1913	5	40	1952	Chinese Government and railway itself.	4,000,000.00
Hu-Foong Railway.....	1914	6	20	1933	Surplus of Peking Mukden Railway.	375,000.00
Total.....						29,078,445-13/7
Chengtai Railway.....	1903	5	30	1932	Chinese Government and railway itself.	Frs. 26,662,500.00
Pieri Lo Railway.....	1904	5	35	1939	.....do.....	38,458,000.00
Total.....						65,120,500.00
Hsin Feng Railway.....	1910	5	18	1927	.....do.....	¥106,666.68
Chen Kin Railway.....	1911	5	25	1935	Pekin-Mukden Railway....	10,000,000.00
Seu-Chen Railway.....	1916	5	40	1956	.....do.....	5,000,000.00
Kirin-Chang Chun.....	1918	5	30	1947	.....do.....	6,500,000.00
Total.....						21,606,666.68

ANNEX III.

DECEMBER 16, 1921.

[For the press.]

Issued by the Chinese and Japanese delegations.

The fourteenth meeting of the Chinese and Japanese delegates relative to the question of Shantung was held in the Pan American Union Building this afternoon at 2.30 o'clock. The discussion on the question of Tsingtao-Tsinanfu Railway was continued. The meeting adjourned at 5 o'clock until 3 o'clock to-morrow afternoon.

FIFTEENTH MEETING.

The fifteenth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3 o'clock in the afternoon of Saturday, December 17, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. C. Yen, Mr. Tsai, Mr. Tung-Fan Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. Telly Howard Koo.
Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

THE RAILWAY LOAN.

Dr. Koo said that at the end of the last meeting the two delegations were on the subject of the period of the loan in relation to the Shantung Railway. As he had said, the Chinese delegates naturally desired to consult their experts concerning their proposal, in which they had said that the period might possibly be extended to 10 years, on condition that all remaining installments might be paid on certain suitable notice after three years from the date of the agreement.

He and his colleagues were sorry to say, however, that their experts had expressed grave doubt as to whether that would in any way simplify the matter. They were strongly of the opinion, inasmuch as the necessary fund could be raised in China from the Chinese bankers, that the plan of the payment in cash would be a most convenient form of procedure not only for China but for Japan also. As he had promised that the Chinese delegates would consult their financial experts, he wished to bring that information up before the meeting. Even from a layman's point of view it appeared that it would be simpler if it could be arranged to make a single payment than to have the installments spread over several years.

Baron Shidehara desired Dr. Koo to tell him very frankly the reason why the Chinese delegates preferred a cash payment to the arrangement of a loan contract. He understood that a great sum of debt remained still unpaid by China; that there was a large sum of debt for which even the interest was in arrears. He had just been informed that the interest which had fallen due on December 1 last on the loan of 1911 between the Yokohama Specie Bank and the Chinese board of posts and telegraphs had not been paid. On that account the Yokohama Specie Bank was placed in a very awkward position in its relation with the shareholders of the loan. The time limit had come and the money had not been paid. Besides that particular loan there was a large amount of loans in regard to which the principal and interest had still been left unpaid. Why was China specially in a hurry to make payment in cash for the Shantung Railway while various other outstanding debts were left unpaid? He desired Dr. Koo frankly to tell him the motives for China's being in such a hurry in regard to the Shantung Railway payment.

Dr. Koo said that in the case of the Shantung Railway Chinese bankers had expressed their readiness to supply money. In other cases the Chinese Government had not been so fortunate. As the Japanese delegates were aware, every Government had very limited sources of income, and to meet some unexpected expenditure they were obliged to fall upon such assistance as might be offered by individuals. As to the other loans mentioned by Baron Shidehara, of which the interest had not been paid, it appeared that the Chinese people themselves saw that so many of those loans had been contracted without much difficulty in circumstances which did not give them any concern. They naturally hesitated to offer any such assistance as in the case of the Shantung Railway. Moreover, the very fact that there were a number of loans of which the payment of the interests was in arrears served as further explanation as to why the Chinese people desired to contract no further foreign loans.

Baron Shidehara asked whether it was the policy of China not to contract any further foreign loans.

Dr. Koo said that he did not know whether he had made his point of view clear. Whenever the Government could not raise money at home, they had to get it from abroad. In other words, in these matters the Government was not altogether its own master in China as in other countries. They depended upon the readiness on the part of the people to invest in public securities.

Baron Shidehara said that in the case of the Yokohama Specie Bank loan it was secured on the revenue of the Peking-Hankow Railway, but when the Specie Bank made inquiries of the Chinese Government as to the payment, it was told that there was no longer any revenue remaining on the railway. He understood that the Peking-Hankow Railway was a very paying concern, but still the loan secured on that railway was in default. The Japanese people would naturally wonder why China, in such a situation, should be in a special hurry in making cash payments for the Shantung Railway, but that would be repeating the same question he had already put to Dr. Koo. In any case, he desired to ask whether the observations just made by Dr. Koo meant that the Chinese delegates desired to withdraw their proposal of the day before.

Dr. Koo said that he had stated the opinion given by the Chinese financial experts, which strongly supported the legitimacy of the plan of cash payment, but if it was desired by the Japanese delegation to settle the question of the payment he and his colleagues were disposed to fall back upon the plan of the three-year period. He had frankly to say that they would try to do their best under the circumstances to minimize, so far as possible, the anxiety on the part of the Japanese investors in China. Especially in view of the belated payment of the Specie Bank loan of 1911, the Chinese proposition would really, it appeared to them, be preferable. Instead of adding to the anxiety of the Japanese bankers that would help liquidate the payment at once; within nine months there would be no portion remaining unpaid.

Baron Shidehara thought that he had already explained the reason why it was difficult for the Japanese delegates to agree to the plan of cash payment, and it would perhaps be unnecessary to repeat his observation. In this situation the proper way would be to proceed with the discussion on the Chinese proposal of the day before. To proceed with the discussion of that proposal, he would like to ask a question. The Chinese delegates used the term "treasury notes." He would ask if this was used in order to show that the arrangement was a short-term loan.

Dr. Koo said the treasury notes were suggested merely because they were probably the simplest kind of evidence for the unpaid portion of the amount.

Baron Shidehara said that his understanding was that the treasury bills, or treasury notes, indicated a kind of short-term loan. When the loan extended for several years some other term was generally used.

Dr. Koo said that the term "treasury notes" was used in the contract of the Lee-Higginson loan, and also in some other loan contracted in 1916 with certain bankers in the United States.

Baron Shidehara thought that the case was usually this, that when the Government had liability and did not find it wise to pay at once, but thought the fund could be raised in six months or at the end of a fiscal year, treasury notes were issued. They were a kind of short-term loan.

Dr. Koo said that he might be wrong, but the treasury notes were used by a great many Governments in payment of liabilities which they might have incurred for a more or less limited term. That was the case, he understood, with the United States Government also.

Baron Shidehara said that that was usually the case; he understood that they were for short terms.

Dr. Koo said that in the case of the Lee-Higginson loan the term was 30 years.

Baron Shidehara said that that was a minor point, only he wanted to make himself clear on that point. The Chinese delegates had made a proposal the day before, and perhaps it might be useful for the Japanese delegates to make some observations concerning that proposal. He would like to have it clearly understood at the beginning that in the mind of the Japanese delegation the only practical method to effect a financial arrangement of the nature now contemplated would be to conclude a definite loan agreement between the Chinese Government and the Japanese capitalists. Apart from

the question of the various technical difficulties which stood in the way of the Japanese Government becoming a party to such financial arrangement, it seemed highly undesirable that the Government itself should remain directly interested and involved in the Shantung Railway after it had completely been handed over to China. The enterprise was purely of an economic nature and any arrangement by which the Japanese Government itself retained interest in the railway might create much misgiving in the popular mind. It might be taken as if there were some political significance in it. Of course, the Japanese Government would be glad to use whatever influence it might have with its nationals in making the financial arrangement of that kind. They were quite ready to discuss and determine the basis of the arrangement so far as they were competent to do so, while leaving the matter of detail to be worked out by the capitalists, with the approval of the Chinese Government. With regard to the period of the financial arrangement now proposed, the Japanese delegates presumed that the point to which the Chinese delegates attached special importance was the period of the time after which China would be at liberty to redeem the whole outstanding liability, and he realized that the desire of the Chinese delegates was to make the term of such extra redemption as short as possible. At the same time, from the investors' point of view, they would naturally hesitate if they were left in uncertainty as to their exact position in regard to the payment or the redemption of the loan after such a short time as three years, since China might or might not choose to effect such a redemption. Taking all circumstances into consideration, it seemed to the Japanese delegates reasonable that the term of the extra redemption, the term after which China would have option of redeeming the whole outstanding liability, should be fixed at 10 years instead of 3 years. As regards the term during which the loan was to run, he had proposed the day before a period of 23 years, but now he would make it a round number, namely, 20 years instead of 23 years. As he had stated the day before, the Japanese delegates desired the Chinese Government to see their way to enlist in the service of the Shantung Railway a chief engineer, a traffic manager, and a chief accountant whom the Japanese capitalists might recommend. They still placed great importance on the appointment, especially of the traffic manager and the chief accountant, to be recommended by Japanese capitalists. He would now propose:

"1. The financial arrangement to take the form of a loan agreement between the Chinese Government and Japanese capitalists.

"2. The loan to run for a period of 20 years from the date of the agreement. China, however, to reserve to herself the option of redeeming the outstanding liability after a period of 10 years from the date of agreement.

"3. China to enlist in the service of the Tsingtao-Tsinanfu Railway, the chief engineer, traffic manager and chief accountant to be recommended by the Japanese capitalists, it being understood that these railway experts shall be subject to the supervision of the Chinese managing director."

Dr. Koo said that he was not sure whether he understood the point of view of the Japanese delegation on that question. On the

other hand, he was inclined to feel that the spirit in which the Chinese proposal had been formulated was not fully appreciated by his Japanese friends. The desire of China to make the payment of the total amount of the railway properties as soon as possible was a perfectly natural and reasonable desire. He did not see why the Japanese capitalists, already having their confidence shaken in Chinese securities on account of the belated payment of interest of the Specie Bank loan, should be anxious to make this loan to China. In the second place, the Chinese delegates had already expressed their desire to effect the payment in installments, not from any desire in any way to give even the appearance of discrimination. They had made that proposition because they had received offers from the Chinese bankers to finance the Chinese Government, as had been explained on more than one occasion. Japan wanted to retain her interest lest her position might be misunderstood in Japan. For that reason, the original Chinese proposition had been modified so that the payment might be spread over the period of three years. The reason why they could not see their way to accept longer periods they had tried to explain the day before. The Shantung Railway stood in a different class from other railways in China for the construction of which loans had had to be secured. As regards the enlistment in the service of this railway of persons for three important posts to be recommended by the Japanese capitalists, he was not sure whether the Japanese delegates would not lend themselves to an impression outside that in turning over the railway to China they wanted to retain a substantial portion of the control thereof. It seemed that, with the progress of their conversation, the two delegations were, instead of coming together, drifting farther apart on this question of payment.

Baron Shidehara said that the Japanese delegates regarded the first point Dr. Koo had just mentioned as a just one. There were still a large amount of loans on which the interest had not been duly paid. People interested in the Yokohama Specie Bank loan and in the other loans on which the payment had been delayed, desire that the interest should be paid at once. While on the one hand failing to fulfill obligations, China proposed to make cash payment for the Shantung Railway. The Yokohama Specie Bank, for instance, naturally would raise the question why payment on its loans were delayed when China could help it. The public mind would infer that the reason was that China did not want Japan to have interest in the Shantung Railway. It would create great misgivings in the popular mind. He did not think it necessary to repeat that point once again. In the second place, he knew that the Chinese delegates had proposed to spread the payment over three years, but that did not give any benefit at all to the Japanese bankers who desired interest in the railway. If the loan were to be redeemed after only three years, there would hardly be any reason why they should be interested in it at all. Dr. Koo had said that Japan would be retaining the control of the railway.

That was far from the intention of the Japanese delegates. They were going to recognize the full control and operation by China exclusively, and the Japanese proposal certainly indicated that those experts would be under the supervision of the Chinese railway authorities. They would not control the railway, the control would

be left with the Chinese authorities. The experts were meant to be their assistants, to be placed under the direction of the Chinese authorities. If his Chinese friends thought that those assistants would control the railway he would assure them that nothing was farther from the intention of himself and his colleagues. He did not think that the two delegations were drifting very much apart, as had been thought by Dr. Koo. The Chinese delegates now proposed 3 years and 10 years, respectively, for the period of redemption and for the term for which the loan would run. The Japanese proposal was simply to extend the period to 10 years in the one case and to 20 years in the other. He had been given to understand that the Chinese delegation did not place as much importance on the period of the loan as on the period for the option of redemption. The Japanese delegates now proposed 10 years for this latter period, instead of 15 years, as had been proposed on the previous day.

Dr. Koo said that he did not know whether he had made himself clear in saying that the reluctance of the Chinese bankers to come to the aid of the Government in regard to the belated payment had been due to several causes, one of which was undoubtedly the fact that the important Shantung question had remained unsettled. It was quite possible, if that question could be solved in such a way as to give no color even to an impression that while nominally turning over the railway to China, Japan still retained its control, the ground would be prepared for the Chinese bankers to assist the Government in regard to the belated payments. As to the three-year period, he need not disguise his feeling. There was a great difference between 3 and 10 years, and 10 and 20 years. Baron Shidehara had expressed the view that if the term was made too short the Japanese investors might not be interested in the loan. That brought in a new aspect. In offering the three-year period the Chinese delegates had hoped to meet the Japanese desire in order to prevent any misgivings arising in Japan. Japan desired to retain some interest in the railway. To meet that desire the Chinese delegates had modified their original proposal by substituting the three-year period for an immediate cash payment. He had now to express his gratification that Japan disclaimed any intention of retaining control of the railway. In that case, the Japanese delegation would not insist upon the three very important posts being filled on recommendation by Japanese capitalists.

Baron Shidehara said that he disclaimed the intention on Japan's part to exercise the control of the railway; he would confirm that. But he had to insist that those most important posts mentioned in his counterproposal should be filled by Japanese experts. Their appointment seemed to him to be of great importance from the point of view of the Japanese capitalists who might be interested in that question.

Dr. Koo said that the Japanese proposition appeared to confirm one of the reasons which the Chinese delegates had had in mind for preferring a single payment. They wished to avoid entering into any more loans, in order to preclude any such appointment of important experts. He was quite sure that the Chinese anxiety on that point was fully intelligible. It was hardly necessary to add that the power of recommendation in regard to the three main posts constituted an important control of the line, which the Japanese delegates had proposed that China should retain exclusively to herself.

Baron Shidehara said that he did not see how such a construction could be placed on the Japanese plan. It was the Chinese managing director who would issue instructions to these experts, who would control the latter and the whole railway. The Japanese experts would no more control the railway than he (Ambassador Shidehara) was controlling the whole machine of the Japanese Government.

Dr. Koo said that he was quite sure that Baron Shidehara would see that the power to recommend candidates for those important posts to the Chinese Government, with the implication that they should be accepted, would constitute an important element of control.

Baron Shidehara said that if certain persons recommended were not agreeable to the Chinese Government they had only to say so. The Japanese capitalists would recommend others. It was the Chinese Government which appointed those men. He added that that was not to be regarded in any way as a special feature of the proposed arrangement, but that it was quite a common practice very generally accepted in the cases of various other railway loans.

Dr. Koo said that, in the first place, not all loans were accompanied by the privilege of recommendation for those three posts. In the second place, those other loans had been made because it was necessary for the Chinese Government to raise money and could not obtain it from the Chinese people. In the present case, as he had stated on several occasions, China preferred an immediate payment, as the Chinese people were ready to finance the railway. It would be very difficult for the Chinese delegates to explain why preference should be given to any foreign national at the expense of the right of the Chinese people and against their wishes. The question of loan arose when China could not raise money herself. Just to illustrate: The Japanese Government would issue loan in the Japanese market if they could. Only when they could not do so in Japan on the same favorable terms, they would have recourse to foreign markets. He mentioned that not for any other reason than to make clearer the Chinese standpoint. Great difficulties would confront the Chinese delegates if they ignored the earnest offer of the Chinese bankers to provide funds for the present purpose.

Baron Shidehara said he was afraid that the Chinese delegation entirely failed to consider the history of the whole matter. The starting point of the two delegations seemed to be a little different. He and his colleagues proceeded from the fact that the plan of joint enterprise had in itself been a great concession if compared to Japan's original plan of full ownership, to which she was entitled. Their last proposal was really a compromise plan. If the history of the matter should be disregarded, it would be difficult to reach a satisfactory understanding on this complex question. In the case of the Specie Bank loan China was under an obligation to pay the interest to the Japanese bank, but she had failed to fulfill that obligation. In this present case there was no obligation for China to make the payment in cash. But still China insisted on paying in cash in this case, while failing to discharge her obligation in the other.

Dr. Koo said that the difference was that, in the case of the arrears in payment for the interest of foreign loans, the Chinese Government was unable to persuade their people to lend any financial assistance,

but that in the present case the people were quite willing to come forth with the necessary financial assistance.

Baron Shidehara said the point was why the Chinese bankers should fail to help the Chinese Government in regard to the other loans while they were so anxious to offer money in regard to the Shantung Railway.

Dr. Koo said that the reason was very obvious. They desired to remove, as soon as possible, the causes which had disturbed the relations between Japan and China. They were people who were interested in trade. They wanted the Shantung question to be settled in a way that would not tend to perpetuate or to hoard up anxiety and disturbing feelings on the part of the Chinese people to the consequent detriment of their trade interests.

Baron Shidehara said he did not quite see how the fact that Japanese capitalists should retain certain interests in the Shantung Railway should disturb the friendly relations between the two nations.

Dr. Koo said that, in the words of Baron Shidehara, they were not to forget the history of the question.

Baron Shidehara said that if an agreement was reached on the Shantung question, if it was set at rest forever, he did not see how the fact that Japanese capitalists retained a certain interest in the railway could affect friendly relationship between China and Japan. Japan did not ask for any interest other than had been commonly requested in regard to other railways in China.

Dr. Koo said that the Chinese people might very well ask why Japan should insist upon having interest in this particular railway.

Baron Shidehara said that the answer would be quite simple. It was only a question of history. Japan had been making concession after concession successively, and had at last come to this final proposal. It was their last concession. No international question of this nature could be settled without a spirit of concession and compromise. It was in that spirit that the Japanese delegation proposed this plan.

Dr. Koo said that Baron Shidehara's statement did not quite describe the situation. It would be recalled that the Chinese delegation had first proposed a single payment, but because of the Japanese desire to retain a financial interest in the railway they had modified the proposal so that the payment might be spread over three years. Taking into consideration their own difficulties, it was as far as the Chinese delegation could go.

Baron Shidehara said he did not think it would be useful to proceed any further, both sides repeating the same arguments over and over again. He thought it would be better that this matter should be handled in a practical and businesslike manner. The Chinese delegates thought the period of time for the proposed loan was unacceptable. He wondered how far, then, would they come to meet the desires of the Japanese delegation.

Dr. Koo said he wished to point out that the present proposal of the Japanese delegation was so different from the Chinese proposal which had been offered as a concession to meet the Japanese wishes, it would be difficult for him and his colleagues to proceed to discuss the three propositions offered by Baron Shidehara.

Baron Shidehara thought the Chinese delegation had said that if for a short term, they would consider the engagement of Japanese railway experts.

Dr. Koo said that he remembered saying that he *might* consider that question of personnel if the period were short.

Baron Shidehara said he understood that as regards the question of period, the Chinese delegates placed more importance on the period of redemption.

Dr. Koo said that it was naturally so, but that they desired the duration of payment should be made three years, so that they might be able to explain to the Chinese bankers that if they wished they could finance the railway as soon as it had been redeemed at the end of the three short years.

Mr. Hanihara asked Dr. Koo if he did not see the reasonableness of the Japanese desire to retain a certain interest in the railway.

Dr. Koo answered that it was the very reason why they had suggested three years instead of cash payment. If the Japanese delegation started from the Chinese concession, he did not see how there could be a fair agreement. When the Chinese delegation had said three years, it was in order to meet the Japanese desire to retain a certain interest in the railway.

Mr. Hanihara said that, apart from the question of the duration of payment, if it was admitted that Japan should retain interest in the railway it would actually have to retain interest. In other words, the interest granted must not be meaningless. He wondered if that could be done if the payment were to be made in the form of the treasury notes of the Chinese Government.

Dr. Koo thought the interest sought by Japan was financial in nature.

Mr. Hanihara said it was a financial interest, but that it must be a substantial interest such as other nationals had been granted in other railways in China.

Dr. Koo asked if Mr. Hanihara was speaking of the period of payment.

Mr. Hanihara said he was speaking of interest.

Dr. Koo said that the question of enlisting expert assistance could only be taken up after the question of period had been disposed of.

Mr. Hanihara inquired whether the Chinese delegation were prepared to contract a loan in the form suggested by Baron Shidehara if the period of the loan, or rather the period of redemption, was made three years. (Mr. Hanihara hastened to add that he did not mean to propose that period for the said loan.)

Dr. Sze said that China desired the mode of payment to be as cheap as possible. If the payment was made in treasury notes the Japanese Government could keep them and China could tell her own bankers that the payment was only being made in installments. If, on the contrary, the bonds were placed in the hands of bankers, they would discount them and the Chinese bankers would come to the Chinese delegates and say: "Why not give us first chance?" The whole idea was to find a way for the solution which would not place the Chinese delegates in a difficult position. The whole matter was of small importance from the point of view of the Chinese Government because the whole amount was small.

Mr. Hanihara said that supposing the Japanese people desired certain interest in the railway, it would be unreasonable to expect them to be satisfied with the short period of three years.

Dr. Sze said that he understood that this three-year period was for option. Options might be, or very often might not be, enforced.

Baron Shidehara asked if there was not a provision for such an option in regard to many of the Chinese railways.

Dr. Sze said that the enforcement of these options depended upon the condition of the money market and also on trade.

Mr. Hanihara inquired whether the Chinese delegates would be prepared to consider a loan with the Japanese capitalists, if the Japanese delegates agreed to the term of option, or whether they would still insist upon making the payment in treasury notes.

Dr. Koo asked what the most important difference was between payment by treasury notes secured upon the revenue of the railway and the concluding of a loan with Japanese capitalists.

Mr. Hanihara said that, in the first place, if the treasury notes were secured upon the revenue of the railway, the Japanese Government would be directly interested in the railway, and in order to protect the security it would become necessary for the Japanese Government to take proper measures in regard to the railway. It would not be desirable either to Japan or to China that a foreign Government should have direct influence in a Chinese railway. If the financial arrangement was left to private capitalists, they would recommend railway officials whom the Chinese Government would employ as their own employees, but if the Japanese Government held Chinese Government bond they would have to send their own officials to take part in the operation of the railway.

Dr. Koo said that Mr. Hanihara was assuming that the arrangement of Japan recommending candidates for those railway offices had been accepted, but the arrangement was not accepted in the form here proposed.

Baron Shidehara asked in what form it would be acceptable to China.

Dr. Koo said that, as had been stated several times, the Chinese delegates would be prepared to consider this question after the other question had been disposed of, for a great deal depended upon the duration of the payment. The two questions bore upon each other.

Mr. Hanihara said it was necessary for the Japanese delegation first to know whether or not the Chinese delegation would be prepared to conclude a loan with the Japanese capitalists. Only then would come the question of the term.

Baron Shidehara said that the first point of the Japanese counter-suggestion was intended to prove beneficial to both countries. There might be misunderstanding if the Japanese Government itself were to retain any interest in the railway. The Chinese delegation had said that they would concede a certain interest in the railway to Japan and that the fact of payment being secured on the revenue of the railway was a considerable interest to Japan. Now, if the Japanese Government were to hold that interest what would the people say about it? They would very naturally read some political meaning into the arrangement. He had thought it would be much better, both from China's point of view and from Japan's, that the financial arrangement should be made between the Chinese Government, on the one hand, and the Japanese capitalists instead of the Japanese Government, on the other.

Dr. Koo said the difficulty about the loan proposal was in making suitable explanation to the Chinese bankers as to the reason for taking a loan from foreign financiers instead of home capitalists.

Baron Shidehara thought the circumstances of the case were a sufficient explanation. As a matter of fact, the treasury notes were, in his understanding, a kind of loan, a short-term loan.

Dr. Sze said that he viewed it in the light of a deferred payment.

Baron Shidehara said that deferred payment was in itself in the nature of a loan; Governments issued treasury notes as a form of short-term loan. It was so in almost every country.

Dr. Sze found some slight difference between treasury notes and a loan. It was nothing more than a sort of a pledge in written form. There might be some other term. His impression was that treasury notes were more or less in the nature of a promissory note.

Baron Shidehara thought he had before made it sufficiently clear that the Japanese Government was not in a position to take treasury notes—to conclude a financial arrangement of that nature with a foreign Government. If they did, however, it would certainly create a false impression in the Chinese mind as well as in the Japanese.

Dr. Koo said that as far as China was concerned there was no ground for misgiving because the Chinese Government would be paying only what was due from her.

Baron Shidehara asked if Dr. Koo's remark would hold good even if the Japanese Government was to retain an interest in the railway.

Dr. Koo answered in the negative. He said that, as a matter of fact, the amount of payment which was due from the Chinese Government was to the Japanese Government, and certainly not to the Japanese subjects. He did not, therefore, see how there could be any misgivings in China so long as the payment was made from time to time by installments.

Baron Shidehara reminded Dr. Koo that before the complete liquidation of the payment took place the Japanese Government would have interest in the railway. Dr. Koo had said that China would be giving considerable interest to Japan, in that the remaining installments would be secured upon the revenue of the railway.

Dr. Koo said that the Chinese delegation had not at first mentioned the matter of security. It was the Japanese delegation that had raised that question. He suggested that the question of security might well be dropped.

Baron Shidehara understood the reason why the Chinese delegation had put in this clause concerning security was in order to meet the Japanese wishes to retain an interest. He wondered if that was not the position of his Chinese colleagues.

Dr. Koo said it was to meet the Japanese wishes.

Baron Shidehara desired to ascertain if the Chinese delegation were ready to permit Japan to have interest in the railway.

Dr. Koo said: "Financial interest; yes."

Baron Shidehara said that the point he had raised was this: If the Japanese Government, instead of the Japanese capitalists, were to retain that interest, it would be a source of misgiving; it might be said that after handing over the railway completely to China the Japanese Government still retained interest in it. He did not think it desirable.

Dr. Koo said that the difficulty that confronted them was due to the fact that Japan was asking two things which were contradictory, which were hardly to be reconciled with each other. Japan did not want single payment, but, on the other hand, would retain interest in the railway. If interest in the railway should be given to Japan, it would create an undesirable impression because the debt was owing to the Japanese Government. If Japan did not insist on retaining interest in the railway, and if she was not opposed to a single payment, the question would be simplified.

Baron Shidehara thought the Chinese delegation had been ready to spread the payment over three years, during which period of time they were ready to allow certain interest in the railway to Japan. That was their position. The Japanese delegation now said that the question was whether the Japanese Government or Japanese capitalists should be the party to the financial arrangement. That was the point at issue. As far as he knew, there was no Government that had any interest in railways in China. If the Japanese Government had a claim of interest in the railway, such a claim would give rise to an erroneous impression. As he had said several times before, Japan simply wanted to have in the Shantung Railway an interest of the same nature, of the same significance, and to the same extent as China had granted to other nationals. She was not asking anything more than what had been already conceded to foreign nationals in regard to other Chinese railways.

Dr. Koo said that this interest was to be held only so long as the payment was not completed; that was to say, only for three years under the Chinese plan. Considering the special circumstances under which this railway question had arisen, the fact of the Japanese Government retaining interest of that kind need not necessarily raise serious objection. The Canton-Hankow Railway had been repurchased with the capital furnished by the Hongkong Government.

Baron Shidehara asked if the Hongkong Government retained any interest in the line.

Dr. Koo said that the Hongkong Government did not desire it.

Baron Shidehara said that if the Japanese Government were to retain interest in the Shantung Railway, it would look queer, for, in the nature of things, such enterprises should be left to the activities of private individuals.

Dr. Sze said that if the arrangement was confined to the period during which the payment was pending, it would not, at least, be prejudicial to the interests of the Chinese bankers and it would certainly be easier to explain the matter to them.

Mr. Hanihara said that it would make a great difference. If the Japanese Government held the treasury notes of the Chinese Government it would have the result of Japanese Government officials participating in the operation of the Shantung Railway.

Dr. Koo said it would undoubtedly be true if it was assumed that the engagement of Japanese assistance in the service of the railway had been accepted by China.

Baron Shidehara said that he did not understand, however, that it was the intention of his Chinese friends to oppose the plan of recommendation by Japanese capitalists. They had said that they were

ready to consider the matter if the term of the loan was fixed for a short period.

Dr. Koo said that the Chinese delegates were ready to discuss the matter, but not under the plan now proposed by Baron Shidehara. It was difficult to reconcile it with the idea of surrender of the full control of the railway.

Baron Shidehara inquired if the Chinese delegation proposed to make the Japanese Government, instead of Japanese capitalists, the party to the financial arrangement under discussion.

Dr. Koo said originally the question was very simple; it was only a debt owing from the Chinese Government to the Japanese Government. Nobody would object to the Japanese Government receiving payment of a debt due from the Chinese Government. Complication came in because of the Japanese desire to retain interest in the railway.

Baron Shidehara asked if the Chinese delegates did not say they were ready to accord that interest.

Dr. Koo said it was not an interest of such a nature as would be objectionable from the point of view of public opinion.

Baron Shidehara said it was an interest similar to that accorded to capitalists of foreign countries. He would ask Dr. Koo if there would be no objection to the Japanese Government holding such interest in regard to the Shantung Railway.

Dr. Koo said there would not be any objection. So long as the Chinese Government had not completed their payment to Japan, the interest of the Japanese Government in the railway would remain to the extent of the unpaid installments.

Baron Shidehara said he hoped his Chinese colleagues would appreciate this point, that Japan was not asking anything more than was granted to others in Chinese railways. It was merely proposed to place the Shantung Railway on the same footing as many other railways in China. There was no special feature in the Japanese loan proposal as compared to other railway loans.

Dr. Koo said that the position was this, that because of the re-purchase of the Shantung Railway, the Chinese Government incurred debt to the Japanese Government. China desired to pay it as soon as possible; but, in order to pay this debt, Japan desired China to incur another debt to Japanese capitalists. The Chinese delegation had said, moreover, that if their proposal in respect to the duration of the period was accepted they would consider the question of employment of Japanese experts.

Baron Shidehara said that it would be very unfortunate if they had to drift apart on the difference between 3 years and 10 years.

Dr. Koo hoped that they might agree upon 3 years, so that they might proceed to the question mentioned in the third paragraph of Baron Shidehara's proposal.

Baron Shidehara said he was sincerely under the impression that the Japanese proposal was quite reasonable and the period they had proposed was very fair.

Dr. Koo asked Baron Shidehara if the period of 10 years was to be the term of the loan.

Baron Shidehara said that it was proposed to be the term after which China should have full option of redemption. He thought the

Japanese suggestion in that respect had been made sufficiently clear in paragraph 2 of the counterproject.

Dr. Sze said that the period of 10 years, if counted from the time of construction, would not be very long, but, counted from now, it was much too long.

Baron Shidehara said that the Japanese suggestion was intended to protect the interests of investors, of those who would subscribe to this loan. The respective periods mentioned in the Japanese counterproject seemed to be quite necessary for that purpose.

Dr. Koo regretted that there had not been much progress made.

Baron Shidehara said that the only way there seemed to be was the reconsideration of the whole matter by each side.

Dr. Sze said that the Chinese delegates had gone beyond authorization. They had met the Japanese point as far as possible. If the period of three years could be accepted it would make easier their explanation; their people at home would be lenient with them for going beyond their instructions. He hoped the Japanese delegation would be so good as to take into consideration the situation as it was. In the meantime he would like once more to assure the Japanese delegation that there was no idea of discrimination or prejudice against Japan, or in any way jeopardizing Japanese trade.

Baron Shidehara said there were difficulties on both sides. The Japanese delegation, on their part, had been proceeding this far on their own responsibility. They were being animated by the same spirit.

Mr. Hanihara wondered if there might not be some means for the Chinese delegation to make satisfactory explanation to their people at home, so that they might understand the reasonableness of Japan wishing to retain an interest, some reasonable interest, in the railway. The two delegations were, after all, meeting here, not to antagonize each other, but to find a solution satisfactory to both.

Dr. Sze said that if the Japanese delegation knew the real character of the difficulty which confronted the Chinese delegation, they would be simply surprised. The whole trouble was that this question of Shantung had been left so long undecided.

Mr. Hanihara said that they would meet again on Monday, and that the space of time between then and Monday would prove of much help to the two delegations in coming to an agreement.

The press communiqué was agreed upon (Annex I) and the meeting adjourned at 5.30 p. m. until 3 p. m. next Monday.

WASHINGTON, D. C., *December 17, 1921.*

SJC-15.]

ANNEX I.

DECEMBER 17, 1921.

[For the press.]

Issued by the Chinese and the Japanese delegations.

The fifteenth meeting of the Chinese and Japanese delegates relative to the question of Shantung took place in the Pan American Union Building at 3 o'clock this afternoon. There was a further interchange of views on the question of Tsingtao-Tsinanfu Railway. The meeting adjourned at 5.30 p. m. until 3 o'clock Monday afternoon.

SIXTEENTH MEETING.

The sixteenth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3 o'clock in the afternoon of Monday, December 19, 1921.

PRESENT.

China.—Dr. Sao-Ke-Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. C. Yen, Mr. Tsai, Mr. Tung-Fan Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. Telly Howard Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

RAILWAY LOAN.

Dr. Sze said that toward the end of the last meeting they were discussing the period in which the payment for the railway should be made. Dr. Koo had said that if the two delegations could determine that point, he thought they would be free to discuss other points. The Chinese delegates would be glad to hear the views of the Japanese delegates on that point.

Baron Shidehara wondered if the Chinese delegates had been able to reconsider the question of the period and to modify their position in that connection.

Dr. Sze said that the position of the Chinese delegates was very difficult. However, in order to find a way out of the difficulties confronting the two delegations, the Chinese delegates had taken upon themselves the responsibility to offer a new proposition so that they might proceed further. The original plan was, first, that the payment would be deferred for three years, and at the end of the three years the Chinese Government would be free to exercise the option for redemption; and, secondly, that the term of the loan was to be 10 years. Now it was proposed that the 10-year term would be increased to 12 years. The Chinese delegates had been discussing among themselves about this point, but had not had time to consult their home Government. He hoped that the Japanese delegates would appreciate that the Chinese proposition was being made from their genuine and sincere desire to close this question at the earliest possible date. He hoped that the Japanese delegates would find it possible to meet the wishes of the Chinese delegates.

Baron Shidehara said that if it was possible for the Chinese delegates to give the Japanese delegates satisfaction in the question of experts to fill the three posts, upon recommendation by the Japanese capitalists, the Japanese delegates would be ready to accept the Chinese plan, with the modification that the period for the term of extra redemption should be five years instead of three years. He hoped that it would be possible for the Chinese delegates to go so far to

meet the Japanese delegates. He thought that five years for the term of extra redemption and 12 years for the term of the loan was a very reasonable proposition.

Dr. Sze said that the Chinese delegates had given a careful consideration to the matter and had tried to find a way at once acceptable to Japan and easy to explain to the Chinese people. At first, they had thought they would offer five years for the period of redemption and another five years for the term of the loan, but they found that that arrangement would be more difficult to explain to the people, and so they had decided upon extending the whole term to 12 years. At present the people were more or less excited, and it would be easier for them to understand if there was fixed a short term after which they could use their option. After all, when the period of redemption actually came, the situation might have so changed that China might not exercise the option at all, but the Chinese delegates wanted to leave the term for redemption at three years because it would be easier to explain.

Baron Shidehara said that about the term of this arrangement the Japanese delegates had first proposed 20 years, but now they said 12 years. He thought, however, that three years, which it was proposed to be the period after which China might exercise the option of redemption, would be too short. The Japanese people might think that their delegates had been fooled. The difference now was only two years, and if that term was accepted he could promise that he would do his best to recommend to the Japanese Government that their arrangement should be approved.

Dr. Sze repeated that the Chinese delegates had thought among themselves that the 5-5 formula for the years of redemption and the loan might be advisable, but they had found it impossible to lengthen the redemption term, and so proposed 12 years for the term of the loan.

Baron Shidehara reminded the Chinese delegates that he was not trying to bargain; he was simply trying to give a more favorable impression to the Japanese people.

Dr. Sze said that the Chinese delegates had given almost what was beyond their power.

Baron Shidehara asked whether the Chinese delegates really thought five years too long.

Dr. Sze said that the difficulty was in getting the people to come to their point of view. The whole idea was that it was easier to get the people reconciled if the three-year term was adopted.

Baron Shidehara said in any case the difference was so small. He suggested that they might proceed to point 3.

Dr. Sze asked whether the treasury-note plan had been accepted by the Japanese delegation.

Baron Shidehara said that if the Chinese delegates could give the Japanese delegates satisfaction in regard to the question of point 3, they would, on their part, be ready to reconsider their proposition on that point.

Dr. Sze said that as the Chinese delegates had been pressed by the Japanese delegates, they had already given the real reason why Chinese bankers desired to finance the railway. The profit was the principal motive. If the form of the treasury notes were taken, the Chinese bankers would find no reason for complaint. As to the

appointment of the technical experts, the efficiency of the management of the railway would be the principal concern of the Chinese Government as well as of the Japanese Government. China was very anxious to have a good management of the Shantung Railway, so that it would be a financial success. He thought that, perhaps, experts on some other line in China might be utilized in the Shantung Railway in order that an efficient management could be secured. The main point in the Japanese proposal, as he took it, was to have the line well managed. If only proper men were employed on the line, fair treatment could be assured to all trade.

Baron Shidehara said he did not exactly follow the meaning of the Chinese proposition. He inquired whether it was impossible for China to engage Japanese experts.

Dr. Sze said that was not exactly the case. The fact was that China was aiming at economy in the operation of the railway as far as possible. The Shantung Railway, when it was handed over to China would best be joined to the Tientsin-Pukow Railway, so that the salaries of officials, etc., might be saved. At present, the stations of the two railways at Tsinan were about 100 yards apart, and there was no through service, but in future the two railways would be run as one system, and in that case experts of the Tientsin-Pukow Railway might be utilized on the Shantung Railway. The Chinese delegates did not have in mind to reject any of the Japanese experts. The whole idea of the Chinese delegates was that economy and efficiency should be attained.

Baron Shidehara wondered whether, in speaking about the foreign experts engaged by the Tientsin-Pukow Railway, Dr. Sze had in mind that part of the line from Tientsin to Tsinan. He understood that in the southern section there were some British experts engaged.

Dr. Sze replied that there was a British chief engineer.

Baron Shidehara inquired whether there was a British chief engineer for the northern section of the line.

Dr. Sze replied that he was not sure. Mr. Dartman was the chief engineer until 1917 for the northern section, but his duties had since been taken over by the Chinese assistant chief engineer.

Baron Shidehara inquired whether he was correct in understanding that there still was a British engineer in chief in the southern section.

Dr. Sze said that the Peking-Pukow Railway was divided into the southern and northern sections at Hantson. During the construction period, China relied so much upon the chief engineer, but after its completion there was very little to call for his assistance. There was another British engineer who had long been in the service of the Chinese railways, a Mr. Duckey, who was now on the staff of the Peking-Hankow Railway. The Chinese Government desired to keep him, firstly, on account of his long service, and secondly, because it was very desirable to have a man at hand who had much experience and local knowledge.

Baron Shidehara said that he might be wrong, but he had been informed that there were, besides a British expert, some other foreigners engaged in the service of the southern section of the Tientsin-Pukow Railway.

Dr. Sze said that there might be some traffic inspectors. They had charge of traffic in different local sections of the railway. They held only junior positions.

Baron Shidehara said that the Chinese proposition seemed to be, in practice, that in regard to the Tsingtao-Tsinanfu Railway there would be no special experts employed from Japan.

Dr. Sze said that he did not wish to be understood in that sense. There whole idea was that economy should be effected without sacrificing efficiency. Personally it had been his dream that all railways in China should be brought under one railway system, in order that economy should be effected and facilities should be increased. It would not be advisable to have a special personnel for a railway branch which was only 280 miles long.

Baron Shidehara said that he had no idea to place any obstacle in the way of the unification of the Chinese railways. As a matter of fact, however, the Shantung Railway was not so very short. In Japan the railways were divided into many sections, which were placed under more or less separate management. He thought that a line of 280 miles was not a very short one, and it might be worth while to have a traffic manager and chief accountant for that section, and that it would not in any way prejudice the unification plan of all the Chinese railways. His proposition amounted to this: There was no objection on his part to China appointing any experts on the whole line, and that for the Shantung section she might be able to appoint Japanese experts under Chinese supervision.

Dr. Sze said that as to the traffic manager and the chief accountant, it would be best to have some experts appointed with a view to the whole line. However, separate books could be kept for the Shantung Railway and the Tientsin-Pukow Railway. As to the chief engineer, China might appoint a Japanese. He would be asked to look after the maintenance of the line in the Shantung district.

Baron Shidehara said that he was not very particular about the name. If the term "traffic manager" was not to the taste of his Chinese friends, some such title as "the manager in chief of the Shantung section" might be used.

Dr. Sze said that in one of the railways in China they had several district managers in the beginning, but later it was found better to centralize the duties in one single hand.

Baron Shidehara said that the Tientsin-Pukow line was quite long, but the Shantung line was not short, either. It would be worth while to have a district manager in the Shantung section.

Dr. Sze said that the Tientsin-Pukow Railway was shorter than the Peking-Hankow line. But if its various branches were taken into account it would nearly match the length of the Peking-Hankow in importance. Those branch lines were very important, a quarter of the receipts of the whole Tientsin-Pukow system coming from them. At any rate he thought that the Tientsin-Pukow and the Tsingtao-Tsinanfu Railway should be placed under the same management. As for the traffic manager, one person could offer much quicker service.

Baron Shidehara said that he still hoped that the Chinese delegates would be able to agree that, while a general traffic manager might be one person for the whole line, there should be appointed

for the Shantung Railway section a Japanese expert, to be recommended by Japan. He could be placed under the Chinese supervision. He thought that that was a very modest suggestion on the Japanese part. He added that he might suggest that the Chinese Government should appoint a general traffic manager for the whole combined line of the Tientsin-Pukow and the Tsingtao-Tsinan, while Japan might recommend an assistant traffic manager, who would be responsible for the Shantung branch only. It was said to be the intention of the Chinese delegation to bring the two railways under a unified system. That would in no way be obstructed; only it was desired that a Japanese expert should be appointed under the name of assistant traffic manager, or some such title, to take charge of the Shantung branch under the Chinese supervision.

Dr. Sze said that he was not quite sure whether he had the full authority to say that a Japanese might be appointed for the Shantung Railway after it became amalgamated with the Tientsin-Pukow Railway. It was a question which had to be referred to the legal adviser of the latter line. It might be simply a matter of formality, but he and his colleagues had not gone through the necessary steps in making their suggestion in this regard. When he was actually associated with the railway administration of China, he had entertained a dream, to which he had already alluded, that all railways in China should be unified and run at a minimum cost in order that cheaper service might be offered to the public. When he was a director of the Peking-Hankow Railway, there were three principal assistant managers. Two of them were stationed at Peking and Hankow. However, he had decided that the one at Hankow could be dispensed with, and thus had effected economy without prejudice to the efficiency of the management. To meet the Japanese wishes, he had suggested the appointment of a district engineer from among the Japanese experts already in the service of the Chinese railways.

Baron Shidehara said that Dr. Sze was talking of the district engineer, while the point they were now discussing was the traffic manager. He did not think the Japanese suggestion would in any way interfere with the plan of the unification of Chinese railways; nor would China have anything to sacrifice in the matter of efficiency. China would have her own traffic manager for the whole system and the Japanese traffic manager would be placed under his supervision. He would not be particular about the name of the traffic manager; he might, perhaps, be called district traffic manager. He did not think it would involve special expense to appoint one traffic manager for the Shantung Railway section. It would be worth while to have a special traffic manager for that section. He thought the two delegations were now nearer together.

Dr. Sze said that his personal idea was that none of the three experts were necessary for the Shantung Railway: but, by way of compromise, he had offered that a Japanese engineer might be employed. He would state that the Tientsin-Pukow Railway was being run very cheaply, as was clearly shown in the statistics. Cheap service was being offered both to passengers and freight, because the running expenses were small. It was deemed most important that the lines should be joined with the Tsingtao-Tsinan Railway. Both of them

would profit by it. At present, on account of the lack of connection between them, the shippers had to bear unnecessary expenses.

Baron Shidehara said that his suggestion was that the Shantung Railway should be considered as a branch of the whole line, and that a district traffic manager might be appointed for that branch on the recommendation of the Japanese Government.

Dr. Sze said that at Tsinanfu there was already a large force of officials.

Dr. Koo observed that he was afraid that throughout his colleague, Dr. Sze, had been speaking about the engineer, while Baron Shidehara had been speaking about the traffic manager.

Baron Shidehara said that he had not been talking of the engineer. The line had already been constructed. He had been suggesting that a Japanese traffic manager should be appointed.

Dr. Sze said that from the point of view of the railway, traffic and finance should be unified. In the case of the Peking-Mukden Railway, there were good connections for Siberian traffic at Mukden. And at first it was thought more expedient to have an assistant traffic manager, but later it was found that that was unnecessary. He thought that the Japanese delegates would find that an assistant traffic manager would be superfluous. Personally, he thought no special foreign experts would be needed in connection with the Shantung Railway, but as a matter of compromise he had suggested the appointment of a Japanese chief engineer. He thought, if only from the point of view of the investors, it would be most advisable to curtail the expenses of the management as much as possible.

Baron Shidehara asked what the function of the chief engineer would be.

Dr. Sze replied that his function would consist in looking after the maintenance of the railway.

Baron Shidehara wondered whether the engineer would have anything to do with the traffic department.

Dr. Sze replied in the negative.

Baron Shidehara said that the Shantung Railway having been already completed, he thought that an engineer might not be very necessary, but the traffic department would always be much occupied, so that a special man for that post would be needed. If the Chinese delegates felt that the appointment of the Japanese traffic manager would create bad impressions or misgivings in the popular mind in China, he could not share that view. He had no intention of interfering in the consummation of the unified system of the Chinese railways, and the appointment of a Japanese district manager in Shantung would not militate against the idea.

Dr. Sze said that he thought that in certain cases of amalgamation of railways in China, there were no special experts appointed for the small lines absorbed. In offering the appointment of a Japanese district engineer for the Shantung Railway, the creation of a new precedent was being proposed. It might be added, moreover, that it would be impossible to expect that very able Japanese railway experts would be willing to assume a post on the Shantung section.

Baron Shidehara said that if it was a question of life service there might be some reluctance on the part of the Japanese railway experts to accept a position on the Shantung Railway, but it was a question of only a few years. He felt sure that a good and able

man might be persuaded to accept that position. Moreover, the appointment of the Japanese experts would not be expensive at all if the benefit that would accrue from such appointment to the general efficiency of the Shantung Railway service were taken into consideration.

Dr. Sze said that the figures that one of his experts had just passed to him showed the great expense that would be involved in the appointment of an extra chief engineer and that he had already been placed in an embarrassing position on account of his commitment on the point of employing a Japanese engineer. Therefore, he hoped Baron Shidehara would not press him any further. If the decision was put off another day, he was afraid that there might be more figures forthcoming to make his position still more embarrassing. To sum up, the Chinese proposal was that the delegates should recommend to their Government to effect the connection of the Tientsin-Pukow Railway and the Shantung Railway at the earliest opportunity, with a view to the efficiency and economy of the service; further, to employ a Japanese chief engineer on the Shantung section.

Baron Shidehara said that he felt both sides had now been brought much nearer. It was now simply a question of the traffic manager. Considering the shortness of the period and the small amount of expense that would be incurred, the Japanese suggestion seemed to him a very modest one. It seemed to him the more so because the Japanese delegation had given up the original plan of a railway loan agreement and agreed to take the treasury notes of the Chinese Government. In fact, he felt that he and his colleagues had gone too far and that there might come objection from the Japanese side.

Dr. Koo said that there was not really much difference; that the Japanese delegation called it "traffic manager" and the Chinese called it "chief engineer." The Chinese delegation had done their very best to find a compromise plan out of this very complex situation. With the understanding that the Chinese Government should declare its intention to appoint for the service of the Shantung Railway such Japanese engineer as might be found available from those Japanese experts who were already in the service of other Chinese railways, he hoped that it might be considered that this phase of the question had been happily terminated.

Baron Shidehara said that when they had adjourned the preceding Saturday there remained three important points in regard to the Shantung Railway. The first was the question of treasury notes, the second the question of period, and the third the question of railway experts. The Japanese delegation had already expressed their willingness to go far in regard to the first and second questions. Although there still remained the minor question of three or five years in regard to the period of redemption, if only the Chinese delegation would be ready to give them satisfaction in regard to the third point the whole question would be practically settled. It might be added that, although in regard to the third question the Japanese position had been that the chief engineer, traffic manager, and chief accountant should be engaged by China by the recommendation of Japan, it was not his intention to press the point concerning the chief engineer. With regard to the other two posts the Japanese delegation would be satisfied that they should be that of district traffic manager and district

chief accountant, instead of being the principal posts. He thought the arrangement would be a fair compromise on both sides. The Japanese delegates had compromised very far on the first and second questions, so he hoped that his Chinese friends would be ready to compromise on this third question.

Dr. Koo said that the situation was that on the big trunk line nearest to the Shantung Railway there was no foreign traffic manager, though there was a foreign engineer. After the connection of the two lines had been effected it would be awkward to have a Japanese traffic manager on the system. If the Chinese delegates consented to have a Japanese traffic manager on the Shantung line they would be placed in a difficult position to make an explanation, either to their Government or to their people. It would be more desirable to have a Japanese engineer instead of a traffic manager to show that there was similar treatment on both lines.

Baron Shidehara said that the Chinese delegation might very well explain to their people that this was a compromise plan. If it was considered that the Japanese traffic manager would be under the control and supervision of the Chinese general manager, there should be no reason for them to be afraid of any such result as Dr. Koo had mentioned. As he had stated so often, Japan had made such considerable concession since the time of the Paris conference. The entire aspect of the matter had been changed since the peace conference. Japan's only consolation would be that her concessions would not have been made in vain if China should come to appreciate the sincerity of her desire to promote the happiest relations between the two neighboring nations in the Far East. The Japanese plan was really more than a compromise. If the whole situation was made clear to the Chinese people, he was sure that they would be able to appreciate the spirit in which the concessions were made by Japan.

Dr. Koo said that that spirit was well appreciated, but there was another aspect relating to the question of having a Japanese national as traffic manager. As he understood, the work of a traffic manager was of such nature as was bound to have a great deal to do with the shippers. This Shantung line ran through the greater part of the Shantung Province which was most densely populated. In the nature of things, the traffic manager would have a great deal to do with the Chinese people—many times more than with Japanese. The function of the chief engineer, on the other hand, was only technical. Between these two posts the Chinese delegation proposed to employ a Japanese national as engineer. He thought that arrangement would really go to serve the purpose of promoting friendly relations between the two peoples. He really felt that in the interest of friendly relationship and cooperation between Japan and China, it would be more advisable to give the post of engineer instead of traffic manager to a Japanese national. There was no question of prejudice on China's part, but in order to eliminate the possible cause of misunderstanding, he hoped the Chinese proposal would be accepted. He would be glad if, after three or four days' discussion, it could be said that they had practically approached an agreement.

Baron Shidehara said that the Japanese traffic manager would be placed under the control and supervision of the Chinese general

manager. His position in the whole system would be only of a subsidiary nature. He did not think much misgiving would be created if the entire situation were made known to the Chinese people. He had said that there were various technical difficulties on Japan's part in regard to the question of accepting treasury notes. He was really afraid that the Japanese people might raise objection to their Government accepting treasury notes. Only in their anxiety early to obtain a satisfactory settlement of the whole question, he and his colleagues had taken the whole responsibility upon themselves with regard to the question of treasury notes. Thus it was an important concession on the Japanese side. Also, in regard to the question of period, the Japanese delegation had gone very far to meet the Chinese wishes. Regarding the whole matter together, he hoped that the proposed solution would not be considered very unreasonable on Japan's part.

Dr. Koo said he hoped the Japanese delegation would accept the Chinese plan as a contribution to the cause of friendly relationship between the two nations. He felt sure that this difference on the question of expert assistance was not going to stand in the way of reaching an agreement on the whole question of the railway, upon which so much time had been spent.

Baron Shidehara said it would not be possible for the Chinese delegation to explain to their Government and people that this was their last compromise plan, and that the arrangement, moreover, was to last only for a short period of time.

Dr. Koo said that, if they could, he and his colleagues would very gladly accept the Japanese plan, only the pressure upon them from the Chinese people was so great. Especially the people of the Shantung Province had sent to Washington their representatives, who seemed to take pleasure in insisting upon seeing the Chinese delegates on this question several times every day. He hoped that the Japanese delegates would not insist upon having a Japanese traffic manager, but would be satisfied only with a Japanese engineer.

Baron Shidehara hoped that his Chinese friends would realize the position of the Japanese delegation. If no satisfaction could be given them on this question of traffic manager, personally he could not extend much hope that he and his colleagues might be able to persuade the Japanese Government to accept Chinese treasury notes for the payment. Here, Baron Shidehara desired, for his own information, to obtain a more exact idea of the original Chinese plan of cash payment. He wanted to know when, under that plan, the payment would be effected; if it was to take place immediately upon conclusion of the proposed agreement.

Dr. Koo said that the Chinese intention was to pay off by one installment. The payment would be completed within nine months after the conclusion of the agreement; that was to say, on the day when the transfer of the railway was to be completed.

Baron Shidehara hoped that it might be clearly understood that the three points enumerated in his proposal were mutually interdependent upon each other, so that the questions of treasury notes and of the period of payment would not be considered as determined so long as the question of enlisting Japanese expert service was left

undecided. Unless met halfway in regard to the third question, the Japanese delegation could not recommend the whole scheme to their Government for approval. That was the Japanese position. If the question of the appointment of a traffic manager was not accepted, it seemed to him that the only thing to be done was to reconsider the whole matter.

Dr. Koo said that the difference between the engineer and the traffic manager was very grave to China, but to Japan it was rather a small matter. Therefore, he hoped that this difference would not be allowed to stand in the way of their reaching an agreement on the whole question of the railway.

Baron Shidehara said that the question of traffic manager was of great importance to Japan. At least it was of equally great importance to Japan as to China. What Japan had in mind was to secure good, efficient service for the whole line, and the Japanese delegation would recommend to their Government to select an able and efficient person. Moreover, he was not asking for the principal post, but only for a subordinate post. The reasonableness of the Japanese wish was not, perhaps, fully appreciated by the Chinese delegation. They, perhaps, did not realize what great difficulty the Japanese delegates had had in agreeing to accept treasury bills. There was really great difficulty in that respect, but in the interest of a speedy solution of the matter, Mr. Hanihara and himself had come to the conclusion that they had to take upon themselves the whole responsibility in recommending the plan to the Japanese Government. Personally he could not extend much hope even on that point. As for the Chinese plan proposed that day, it was clearly impossible for Tokyo to accept.

Dr. Koo said that if the Japanese delegation saw their way to accept the plan as they had discussed that day, he felt certain that his Japanese friends would be able to persuade their Government to approve it. If payment by treasury notes should cause much difficulty to the Japanese Government he would leave it to the Japanese delegation to suggest to Tokyo, at the same time, that the plan of cash payment would be available. He merely threw that out as a suggestion to the delegation, without intimating any intention to revert to the original plan. If it was realized how desirable the Chinese plan would be in preventing misgivings on the part of the Chinese people in general, and of the people of the Shantung Province in particular, he felt almost certain that the Japanese delegation would find no difficulty in convincing their Government of the wisdom of that plan.

Baron Shidehara said that he desired to make clear to himself what his Chinese friends had suggested about the chief accountant. He desired to know if they were ready to say that a Japanese chief accountant would be employed in the Shantung Railway section.

Dr. Sze answered in the negative. He was making the suggestion he had made without consulting the parties interested in the other railway. Although, perhaps, a matter of formality, it was proper that they should be consulted first. The Tientsin-Pukow Railway was used for the purpose of security of the Peking-Hankow Railway. There had been concluded two loans in 1908 and 1910, which were secured on the revenue of this railway. The quotations for

those loans in London were highest among the loans floated about the same time. As a measure of precaution the Chinese Government would naturally be obliged to suggest to the Tientsin-Pukow Railway that their books be kept separately. It was a matter of more or less technicality. In Chinese railways the books were kept separately for each section and even for each train.

Baron Shidehara asked if this separate keeping of books was mentioned as a concession on China's part.

Dr. Sze said it had not been suggested as a concession.

Baron Shidehara said that the whole thing amounted to this: That in regard to the three propositions made by the Japanese delegation, the Chinese delegation had made a concession regarding the period of payment to the extent of making the term of the payment and the period of extra redemption 10 and 3 years, respectively, and that regarding the third proposition only the appointment of a district chief engineer had been agreed to.

Dr. Sze said that, seeing that on the southern branch of the Tientsin-Pukow Railway a foreign chief engineer was employed, it would be easier to explain to the Chinese people if only a Japanese chief engineer would be employed on the Shantung Railway.

Baron Shidehara said that the fact remained that the Chinese delegation had not gone far to meet the Japanese wishes. He had no idea to make bargains on those points. The three points suggested were the limit of concessions which he and his colleagues could reasonably expect Tokio to accept. Since the Chinese delegation refused to accept the enlistment of Japanese expert service, there was nothing to do but to reconsider the whole matter.

Dr. Koo said that in regard to the question of period the Chinese delegation had really made great concessions. They had first proposed cash payment; later, had modified that plan, and suggested the three-year payment; and then, that being found by the Japanese delegation still unsatisfactory, they had proposed 10 years for liquidation, with a three-year period of option. As a further step they had agreed to a 12-year period. Therefore, he hoped that in regard to the question of expert assistance, those concessions would be taken into consideration.

Baron Shidehara said that with regard to the question of period, the period of time for the whole outstanding liability—the duration in which the payment should be completed—was not of much importance to China. What was important to China was the period after the expiration of which China could exercise her option to redeem the whole liability. The Chinese delegation had not yielded at all on that very material point.

Dr. Koo said that if it would in any way facilitate the Japanese delegation in making their recommendations to their Government, the Chinese delegation would be prepared to make a statement to the effect that six months' notice would be given to Japan to pay off all the outstanding amount at the expiration of three years after the agreement. Put in that form, the period of redemption would be in effect three years and a half.

Baron Shidehara asked if the idea was that at the end of three years China should give notice for the redemption of the whole liability.

Dr. Sze said that it did not necessarily mean that. The idea was that by means of wording Japan should be given an extra half year without arousing suspicion in the minds of the Chinese.

Mr. Hanihara desired to say a few words. As he had listened to the conversation, there seemed to exist a misunderstanding on the part of the Chinese delegation as to the point on which the Japanese delegates placed the greatest importance. It was the question of expert assistance, of the traffic manager which Japan considered as of the greatest importance. If, unfortunately, no satisfaction could be given them on this point, it would be difficult for the Japanese delegation to consider the other points. The question of period did not in itself amount to much so long as no satisfaction was given in regard to the enlistment of Japanese expert assistance. He really hoped his Chinese friends would find it possible to give further consideration to that matter. If he might be permitted frankly to state his personal views, he was afraid that even if that point were accepted, it would be difficult for the Japanese Government to accept the whole plan. That was, however, only his personal impression, and, of course, he and his colleagues would do their best to persuade their Government.

Baron Shidehara said that in regard to the question of the traffic manager he believed the Japanese position was made sufficiently clear to the Chinese delegation. In the first place, the employment of the traffic manager would be only for a short period. In the second place, Japan was not asking any principal post but only a subordinate one for her national.

Mr. Hanihara said the Japanese traffic manager would be placed under the supervision of the Chinese general manager.

Baron Shidehara said that, moreover, he and his colleagues felt certain that the plan would not by any means interfere with the plan of unification of China's railways.

Dr. Koo said that for the past few days the Chinese delegation had been entirely animated by their desire to meet Japan's wish to retain a certain interest in the railway. It was their honest desire to give Japan an interest in the railway, as far as was consistent with China's aspirations to take back the railway and free it from all foreign influence.

Baron Shidehara reminded Dr. Koo that the original plan was for Japan to have an interest in the railway of the same nature and to the same extent as other nationals had in other Chinese railways. From that original plan, they had conceded to the extent of their present proposal. They had agreed that the period of payment should be limited to a very short space of time. They had consented to give up the employment of the Japanese chief engineer. The Japanese delegates, for their part, had certainly done their best to meet the Chinese wishes. It would not be at all unfair to say that they had made greater concessions than their Chinese colleagues. It was unfortunate that after so many days they still were unable to adjust this question. If, however, it was impossible for the Chinese delegation to accept their plan, the only way would be to adjourn until the following day, so that both sides might think the matter over. The Japanese delegation had already shown their sincerity of desire to meet the Chinese point as far as possible.

Dr. Sze said that he and his colleagues had for their part tried all that was possible; had "explored all possible avenues" to meet the Japanese wishes.

Mr. Hanihara said that if the matter of enlisting Japanese assistance in the service of the Shantung Railway could not be accepted, the whole plan would have to fall through. In that case, the position of the Chinese delegation would stand at cash payment, and that of the Japanese delegation at the plan of railway loan contract.

The press communiqué was issued (Annex I) and an adjournment was taken at 5.40 p. m. until 3 p. m. Tuesday, December 20, 1921.

WASHINGTON, D. C., *December 19, 1921.*

SJC-16:]

ANNEX I.

DECEMBER 19, 1921.

[For the press.]

Issued by the Chinese and Japanese delegations.

The sixteenth meeting of the Chinese and Japanese delegates relative to the question of Shantung took place in the governing board room of the Pan American Union Building to-day. The discussion centered around the proposal from the Japanese delegation to have certain offices in the administration of the Tsingtao-Tsinanfu Railway filled up by Japanese nationals. The meeting adjourned at 5.30 p. m. until 3 o'clock to-morrow afternoon.

SEVENTEENTH MEETING.

The seventeenth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3 o'clock in the afternoon of Tuesday, December 20, 1921.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. C. Yen, Mr. T. Y. Tsai, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi, Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

RAILWAY.

Dr. Sze said that since the two delegations had met yesterday the Chinese delegates had further given careful consideration to point 3 of the Japanese proposition; namely, the question of the

enlisting of a Japanese assistant traffic manager in the service of the Shantung Railway. While it was true that the period of the service would be very short, and while the Chinese delegates sincerely wished to meet the Japanese wishes, he regretted to say that after consultation with the Chinese people here, the Chinese delegation had found it impossible to comply with the Japanese wishes. Therefore, he and his colleagues hoped that the Japanese delegates might be able to meet the desire of the Chinese delegation. The reason for the position of the Chinese delegates was not because of their lack of desire to meet their Japanese friends. In point of fact, he and his colleagues had told the Chinese people that the period was so very short that they might reconsider their attitude, but they could not carry their motion in the delegation. It was therefore by no means lack of desire on their part but "lack of opportunity" that constrained them now to take the present standpoint.

Baron Shidehara said that he had nothing definite to suggest, but he remembered that Dr. Koo had pointed out yesterday that the traffic manager had much to do with the shippers and that the greater part of those shippers would be Chinese people. It had just occurred to him whether it would not be possible for the Chinese delegates to agree to the arrangement that China would appoint her own manager and also a Japanese expert as an associate manager, and the Japanese expert might cooperate with the Chinese manager, both of them being under the general control of the Chinese traffic manager for the whole system, which would consist of the Tientsin-Pukow and the Shantung Railways. And in the same way a Japanese accountant could be appointed to cooperate with the Chinese accountant.

Dr. Sze said that he was afraid that it would be difficult. In the northern section of the Tientsin-Pukow Railway, where the Shantung Railway would be connected, the officials were entirely Chinese; only in the southern section was there a British engineer employed. Therefore he was afraid that it would be very difficult for the Chinese delegates to propose the system suggested by Baron Shidehara.

Baron Shidehara said that what Dr. Sze had just said came to this: That the Chinese delegates could not commit themselves to the appointment of any Japanese experts for the Shantung Railway except in the case of the district engineer.

Dr. Sze said that that arrangement would be easier for the Chinese delegates to explain to the Chinese people.

Baron Shidehara said that he would like to ask an entirely different question. After all, he understood that the Chinese delegates preferred the plan of cash payment, and they had stated yesterday that the cash payment, according to the Chinese plan, was to be effected at the end of nine months from the date of the agreement; that was, at the same time as the transfer of the railway properties was to be completed. He would now ask the Chinese delegates whether it would not be possible for them to agree to an arrangement under which the Chinese Government would immediately or before the commencement of the transfer of the railway, deposit the total amount of the payment with a bank of a third power in China, the money so deposited to be handed over to Japan, when the transfer was completed.

Dr. Sze said that the obvious difficulty of that arrangement was this, that just at this moment the market rate of money was so high. China was keeping the new year under the old calendar, and the rate of interest was generally very high before the new year. The rate would stand at 10 or 15 per cent. If money was deposited with a foreign bank now, it would yield only 2 or 3 per cent, or at the highest, 5 per cent. It was again a question of profit. Although the period was short, the arrangement might mean a great financial loss, seeing that a big sum of money was involved.

Baron Shidehara remarked that any interest on the money deposited would accrue to China.

Dr. Sze said that the money deposited could not be used for nine months. It would yield only from 3 to 5 per cent interest, while if the bankers used the money themselves, they could secure from 10 to 12 per cent of interest. Then, again, it would be much easier for the Chinese bankers to secure the money at several different periods than all at once. They would be able to call in their loans without specially affecting the market. If they were to be called in all at once tremendous effect would be felt in the whole financial market of China. There were, therefore, practical difficulties apart from the question of interest rates.

Baron Shidehara said that what he had in mind was this: The Chinese delegates had suggested a period of nine months. At a time close to this period practically the greater part of the railway would have been transferred to China, leaving only a very small portion. Should it happen that when only a small piece of railway property was left the cash payment could not be effected, Japan would be placed in a very awkward position. It was therefore proposed that when the transfer began the Chinese Government should deposit in the bank of a third power the whole amount of the payment, so that at the expiration of nine months it could be handed over to Japan.

Dr. Sze said that the Japanese delegates appeared to desire that China should make a deposit before the completion of the transfer. He thought that some arrangement might be found which would accomplish that purpose without bringing about the difficulties mentioned before.

Baron Shidehara said he was not aware of the technical side of the question; but in perhaps six months the transfer of the railway properties would have been completed. It would be embarrassing if the money was not forthcoming then.

Dr. Sze inquired whether it was Baron Shidehara's idea that the sum of money should be deposited, so that as soon as the transfer was completed the money should be immediately available. He wondered whether it was necessary to make that deposit before the transfer was started.

Baron Shidehara replied that it was necessary. It might so happen that the transfer would be partially made, and the Chinese bankers declare that they had no money.

Dr. Sze said there was one practical difficulty about the Japanese proposal. On the date of transfer, neither the Chinese Government nor the Japanese Government could exactly know what would be the amount to be paid by China. The improvements and additions made to the Shantung Railway under Japanese occupation

would not yet be made known. What would be definite at that time would only be so many gold marks.

Baron Shidehara said that, practically speaking, the transfer would not begin before the joint commission had completed its task of valuation.

Dr. Sze said that he fully appreciated the point of view of Baron Shidehara, and he thought he should be able to find a way by which he could meet the Japanese wishes and at the same time avoid giving serious loss to the Chinese bankers and any bad effect on the money market. Suppose on the day the commission finished its work of assessment and decided upon what properties should be transferred and what sum China should pay, and a certain sum of money—not the whole amount to be paid, but a certain portion of it—were to be deposited with a bank of a third power. The Chinese banks would not have ready cash to meet the whole payment, and in any case it would not be advisable that so large an amount of cash should be taken out of the market. However, if the plan of a gradual deposit was adopted, the stringency on the money market would be less severe. Suppose the joint commission could finish its work in three months and decide that so much should be deposited at once, and the remaining sum to be deposited at certain intervals according to the progress of the transfer of railway property. That would at once meet the Japanese point of view and also not place undue stringency on the money market.

Mr. Hanihara desired to ask if the proposal just made by Dr. Sze amounted to this: Suppose the joint commission was appointed and the work of valuation was finished in two or three months. Then before the actual transfer of the railway properties began a certain sum, instead of the entire amount at once, would be deposited. He wanted to know whether the Chinese idea was that the deposit should be divided according to the amount of properties handed over.

Dr. Sze said the transfer had to be gradual in order to be fair to both sides and to secure the smooth working of the railway. He desired to be given more time to think out a proper way.

Mr. Hanihara said that if the actual transfer of the railway properties was started, and a certain part of them was actually transferred, it would be very difficult to discontinue the transfer of the remaining part. Therefore, it was most desirable that there should be some assurance that the payment would be carried out by the Chinese Government.

Dr. Sze said that the argument advanced by Mr. Hanihara had convinced him that his suggestion was not entirely satisfactory. If he could be given a few moments, he would try to work out some plan which might be agreeable to his Japanese friends.

After some consultation with his colleagues, Dr. Sze, continuing, said that the transfer was one thing and the payment was another. Suppose they divided the payment into three periods and at the end of three months from the date of the agreement two-fifths of the whole amount should be deposited, one-fifth at the end of six months, and the remaining two-fifths at the end of nine months. This plan would meet the Japanese purpose without serious effect upon the money market.

Baron Shidehara said that it seemed to him that the new plan would have the same difficulty as he had anticipated at first. When the first deposit was made, there would be no knowing whether the Chinese bankers would make the remaining deposits. There would be no assurance that the three-fifths of the whole amount would be punctually and regularly deposited in due course of time. Thus the same difficulty remained under the suggested plan.

Dr. Sze said that if the whole amount was to be paid at once there were difficulties on China's part, as he had stated. First, the loss of interest would be great, and, secondly, if a large amount of money was suddenly taken out of the market, it would have a serious effect upon the money market. However, in order to meet the Japanese wishes, he had proposed the deposit of two-fifths of the whole amount as soon as the assessment was taken.

Baron Shidehara said, as to the first point, he thought it was evident that the Chinese Government should have to bear the difference between the current rate of interest and the rate on the deposit. As to the second point, according to the original Chinese plan of cash payment, the whole amount would have to be paid at the end of nine months. A large amount of cash would have to be suddenly withdrawn from the market anyhow.

Dr. Sze said that if the amount was to be paid in nine months, the Chinese bankers could call in their loans gradually. If they had nine months in which to obtain the required sum they could so manipulate their operations as to spread the effect of the drive on merchants over the entire period. The duration of nine months would make a great difference to the market.

Mr. Hanihara wondered where would be the guaranty that the money would be paid regularly and punctually.

Dr. Sze said that last Sunday he had seen two Chinese bankers. They told him that they could not put up the money for the payment before the Chinese New Year, but that after January 15 there would be plenty of cash in China waiting for investment, so that they could easily raise money. The bankers said that they would be able to fulfill the arrangement of cash payment. Therefore he could safely assure Mr. Hanihara that the payment would be made.

Mr. Hanihara, referring to the Chinese proposal to deposit in three installments of two-fifths, one-fifth, and two-fifths, said that the point he desired to make was that after the first deposit was made, there would be no guaranty for the deposit of the remaining three-fifths. Even in ordinary business transactions some sort of a guaranty would be needed in such a case.

Dr. Sze pointed out that a large number of Japanese merchants were doing business in China, and that it was not their practice to make or demand advance payment in their transactions. He thought in the present case the Chinese bankers could be safely depended upon.

Mr. Hanihara said that the transfer of the railway was not to be likened to the purchase of a few bales of cotton.

Dr. Sze remarked that, for illustration, when 10 bales of cotton were bought by the Japanese merchant, the payment would be made by installments—so much to be paid at the time of signing the contract, another amount at the time of shipment, and the remaining sum when the consignment reached Japan, and so forth.

Mr. Hanihara said that that depended upon the degree of credit people possessed. In the case of the railway transfer, he thought that there should be offered some guaranty, some collateral, by the Chinese Government.

Dr. Sze said that he was sure that the Chinese bankers would be ready to give assurances.

Mr. Hanihara said that he was not dealing with Chinese bankers.

Dr. Sze inquired of Mr. Hanihara whether the Japanese delegates desired to have some collateral.

Mr. Hanihara said that they wanted something of that nature. He meant some security, in case the amount of money could not be paid.

Dr. Koo inquired what was in the mind of the Japanese delegates in asking for security.

Mr. Hanihara said that the only way seemed to be to put up the money in a bank, as suggested, at the time the transfer of the railway properties commenced.

Dr. Koo asked whether the Japanese delegates meant that the whole amount should be deposited; and if so, when.

Baron Shidehara said if Japan were to receive cash payment, it would be important to have an assurance that the entire amount would be deposited after the joint commission should have completed its work and before the transfer of the railway properties should actually begin.

Dr. Koo said that it seemed to him that undertakings of that description ought to be bilateral, the basis being mutual confidence. Speaking of guaranty, it might be asked by China with equal pertinence what assurance there would be that after making deposit of the money the transfer would be made to her satisfaction. Inasmuch as the Chinese proposal was to proceed depositing money along with the progress of the transfer of the railway properties, namely, that the deposit and transfer should be made *pari passu*, it would seem to him that the Japanese proposal to have the whole amount deposited at once was rather exacting.

Baron Shidehara said that he did not like to repeat such an unpleasant incident, but the Yokohama Specie Bank and other Japanese financiers had been placed in an awkward position vis-à-vis their clients, on account of the default on China's part to pay interest on their loan. In that situation, it would appear to him that the Japanese request for a definite security was not unreasonable. The plan of depositing the whole amount was the only plan he could think of to assure regular payment.

Dr. Koo said that he was not sure if the Japanese delegates, in demanding the deposit of the whole amount, were not unnecessarily blending the questions of transfer and deposit. As the Chinese offer now stood, in three months two-fifths of the whole amount would be deposited with the bank of some third power and that fact would be known to Japan and ought to be a sufficient guaranty.

Baron Shidehara answered that he had stated that so far as the two-fifths of the payment was concerned, that arrangement would be satisfactory, but there would be no guaranty whatever for the rest of the amount to be regularly deposited.

Dr. Koo wondered whether Baron Shidehara meant to say that the transfer would be completed within three months.

Baron Shidehara said that suppose the joint commission finished its work within three months, then they could proceed to the transfer of the railway properties. But before the transfer actually began the Japanese Government would like to be assured that when the transfer was completed money would be promptly paid. That was important if Japan were to agree to the plan of cash payment, for it was possible that after transfer had actually begun there might occur a monetary crisis in China, and that the bankers might find it impossible to carry out their contract. Then the Chinese Government would not be able to make the payment to the Japanese Government. Such incidents had actually taken place in the past.

Dr. Sze said that during the last few years the general situation was in no country normal, but that that had not destroyed all sense of credit.

Baron Shidehara said that he had no intention of making any disparaging remarks against the Chinese Government, but as a result of China's failure to pay interest on her loan, the Japanese bankers were actually placed in an awkward position in their relation to the bondholders. If such a thing should arise in relation to the payment for the railway properties, the Japanese Government itself would be placed in an impossible position. In principle, he was not criticizing the suggestion that the whole payment should be made on the completion of the transfer. He would like to be assured, however, that before the process of transfer was actually commenced some definite assurance should be given that the money would be paid regularly.

Dr. Koo said that the Chinese delegation had suggested making separate deposits. That ought to be in itself a guaranty. It was not likely that the work of the joint commission would be finished in less than three months; the transfer would begin only after that duration. By that time the deposit of two-fifths of the amount would have been made. Before two-fifths of the properties had been transferred, perhaps the time would be ripe for China to make the second deposit, and so on to the end. Therefore, he could not quite understand what was in the minds of the Japanese delegation.

Baron Shidehara said that perhaps he had not as yet made his position clear to the Chinese delegates. Perhaps "assurance" was not a proper term to use. What he had in mind was this: Suppose the time for the second deposit should come and find China in a monetary crisis. Then what would happen to Japan? Could Japan ask China to hand back such portions of the properties as had already been transferred?

Dr. Koo asked what, if he could repeat the same question, was in the mind of Baron Shidehara.

Baron Shidehara said that what he had in his mind was that the entire amount should be deposited after the joint commission had completed its work and before the transfer would actually begin.

Dr. Sze said if Baron Shidehara meant that the transfer would only be started after the joint commission had completed its work, then it would follow that if the commission disagreed the transfer would be indefinitely deferred.

Baron Shidehara said that if the joint commission could not finish its work the transfer would naturally be deferred. There

would be no knowing what properties China would be willing to take over, but in the ordinary course of things, he counted upon the commission to finish its work in three months. And then the actual transfer could be effected in about five or six months.

Dr. Koo said that if the total amount was to be deposited at the outset, China would incur a great loss on the interest of the money.

Baron Shidehara said he thought that that would be inevitable. However, the amount would not be very large. The period could not be longer than half a year.

Dr. Sze said that it might amount to something like a million and a half dollars. The difference between the current rate of interest in the Chinese money market and that of the bank of the third power would be approximately 10 per cent.

Baron Shidehara said it could not be helped. At any rate, the Chinese proposition would come to this, that Japan had to hand over the railroad properties without any guaranty that the payment would be effected in due course. However, if, unhappily, a monetary crisis should happen in China, Japan would have to hand over the railway properties, while the payment would be deferred indefinitely.

Dr. Sze said that while Chinese bankers had assured him that the whole amount could be raised in three months after January 15, he supposed there would have to be hard drives for the money. He would at any rate submit the whole matter to the Chinese bankers.

Baron Shidehara reminded the Chinese delegates that the period of nine months was suggested only tentatively. He had to consult technical experts before he could say anything definite. That point had not been definitely decided. If necessary, it would have to be made 10 or 12 months.

Dr. Koo said that China wanted the period to be as short as possible.

Mr. Hanihara said that if Japan were to agree to the plan of cash payment, the sooner would be the better. It would be very unnecessary to repeat what Baron Shidehara had said, but what the Japanese delegates desired was elucidation of the Chinese proposal. It was far from their intention to intimate that they might accept the proposal; they only desired exact information in case they might have to consider the eventuality of cash payment. He hoped there would be no misunderstanding on the part of the Chinese delegates.

Baron Shidehara said that a difficult stage in their negotiations had been reached and he thought that it would be useful to recapitulate the whole situation with regard to the railway question. He had prepared a resumé of what had taken place between the two delegations. Baron Shidehara here read the following statement:

"The Japanese Government originally proposed a plan of joint enterprise. They have not yet withdrawn that proposal. But the Japanese delegation, being anxious to meet the wishes of the Chinese delegation, expressed readiness to recommend to Tokyo, as a substitute of the joint enterprise plan, a plan of railway loan agreement to be concluded between the Chinese Government and Japanese capitalists, on the basis of the terms contained in railway loan agreements of comparatively recent dates which China has entered into with various foreign capitalists.

"The Chinese delegation found itself unable to accept this new proposal and suggested the following two alternative plans:

"1. Plan of the immediate payment in cash of the entire amount of China's liabilities regarding the Shantung Railway properties.

"2. Plan of effecting the payment in question on the following terms:

"(a) The total amount to be paid in several installments extending for 12 years, China reserving to herself the option of paying her whole remaining installments at once, upon six months' previous notice, after a period of three years from the date of the agreement.

"(b) The first installment to be paid on the day on which the transfer of the properties is to be completed, and the remaining installments to be paid in treasury notes secured on the revenues of such properties and bearing interest at ----- per cent.

"(c) China to enlist in the service of the Tsingtao-Tsinanfu Railway a district engineer to be recommended by Japan.

"This is the substance of the two alternative plans of adjustment proposed by China. The Chinese delegation expressed preference of the first plan of cash payment to the second plan of the payment in treasury notes. In either case, it is understood, as has been repeatedly declared by the Chinese delegation, that China has no intention of raising in any foreign market any portion of the fund required for the payment in question."

Baron Shidehara, continuing, said that the Japanese delegation sincerely regretted that their proposition, which they believed was a very modest one, was not found acceptable to the Chinese delegation, and that he and his colleagues were not at liberty to agree to recommend to their Government the Chinese proposal contained in either of the above two alternative plans as they stood at present. It seemed that the two Governments must now find a means of adjustment in regard to the railway question. It only remained for the Japanese delegation to report to Tokyo all that had taken place at this meeting and to obtain instructions before proceeding with further discussion on this question.

Dr. Koo said that his colleagues and he had listened with great attention to the statement Baron Shidehara had made and of which a written copy had been given him. He need hardly conceal his feelings of regret that after having so fully exchanged their views, after so many meetings, the Japanese delegation should feel constrained to regard the situation before them as they did. It appeared to the Chinese delegation that understanding had been reached on nearly every main point involved in the Shantung question. With the permission of the Japanese delegation he would like to summarize the situation as follows:

In the first place, in regard to the question of the transfer of the railway property, they had arrived at an understanding after the Japanese proposition to prolong the period from three to nine months had been accepted. Then, on the question of valuation of the railway properties, in order to meet the Japanese wishes the Chinese delegates had relinquished their position in regard to profits on the railway during the Japanese administration, as well as in regard to the question of Chinese shares. Again, the Chinese delegation had gone out of their way to meet the Japanese viewpoint regarding the question of improvements upon and additions to the railway properties. With those concessions on China's part an understanding had

been reached on the question of valuation. Then, again, with regard to the question of the joint commission, China had proposed the provision of arbitration in order that any differences that might arise in connection with the transfer and valuation of the railway properties might be speedily settled. It was to meet the Japanese desire that the Chinese delegation had accepted the plan of eventual recourse to diplomacy with such expert assistance from a third power as might be agreed upon.

With these three main questions disposed of there had been left only one question—the mode of payment. On that question the Chinese delegation had originally proposed cash payment, as had been truly stated by Baron Shidehara, but, in order to meet the earnest desire of the Japanese delegation to retain interest in this railway line, the Chinese delegation had suggested a three-year period of payment, and had proposed to pay for the railway properties with treasury notes secured upon the revenues of the railway. That security had been offered again to satisfy the Japanese desire to have suitable security for the unpaid installment. As the three-year period had appeared to be too short, the Chinese delegation agreed to prolong the period of deferred payment to 10 years and later to 12 years. As the Chinese delegation understood, the Japanese delegates had been good enough the day before to say that if the question of personnel should be adjusted in a manner satisfactory to them they would be ready to accept the proposed period and the payment by means of treasury notes. As to the question of personnel, the Japanese delegation had proposed three positions. In order not to let a subordinate point stand in the way of the settlement of the whole railway question, the Chinese delegation had offered to appoint a Japanese national as district engineer for the whole Shantung line, and they had also stated that it was their intention to recommend to the Chinese Government that such district engineer should be selected from among Japanese experts well experienced in the Chinese railway service. To avoid misunderstanding, it might be added that, as had been stated at the last meeting, it was considered more advisable that the mode of selection and appointment of such expert should be left to China, rather than to be recommended by Japan, for the very obvious reason that the Chinese Government should avail itself of such an expert as was already enlisted in the service of the Chinese. He had been given to understand that day that the Japanese delegation would suggest the appointment of a Japanese associate traffic manager side by side with a Chinese associate traffic manager, both to be under a Chinese general manager. The Chinese delegation, however, had said that they could not meet the Japanese view on that point. (Here Dr. Koo interrupted himself by saying that he had just been reminded by his colleague that it was not the Japanese intention that the Chinese should pay for all railway properties, but only for such as might be agreed upon. Baron Shidehara agreed.)

Continuing, Dr. Koo said he had been going to state that the difference of views on the mode of payment appeared to him to be very small; namely, the difference between the traffic manager on one side and the chief engineer on the other. Then, the question of cash payment had again been discussed that day, and in order to show their good faith and to assure the Japanese delegation of their earnest de-

sire to meet the Japanese point, the Chinese delegation had offered to effect such payment through making deposits every three months. It therefore appeared that on either of the alternative plans the outstanding difference was very small. In view of this fact, he and his colleagues felt it somewhat difficult to understand the position that the Japanese delegation were taking on this railway question. The Japanese delegation naturally desired to consult their Government, but if by that it was meant that they would revert to their original position in regard to the three other main points—that was to say, first, the transfer of the railway properties; second, the valuation; and third, the joint commission—the Chinese delegation could not but express their deep regret that the Japanese delegation should desire to take such a stand. He desired to be informed if he had correctly summarized the situation as it stood in saying that substantially the only divergence of views which existed in the case of payment by installments was as to whether a Japanese associate traffic manager or a Japanese district engineer should be appointed for the railway; and that in the case of cash payment the difference centered around the question of making deposits, as the Japanese delegation desired that the total amount should be deposited before the transfer of the railway was started, while the Chinese delegation proposed that such deposit should be effected by different stages over a period of nine months, within which the transfer of the railway was to be completed. Before closing his observation he desired to be permitted to say that he had made his remarks with a great deal of hesitancy because, if he had had time to prepare, he would have liked to make a more comprehensive statement in reply to Baron Shidehara's statement.

Baron Shidehara said that he would like to mention a few points, after listening to Dr. Koo's interesting remarks. First, the term of nine months for the completion of the transfer of the railway properties had only been tentatively agreed. He remembered having said that this question involved considerations of a technical nature and that he had to consult railway experts, of whom there were none in the staff of the Japanese delegation. Only he had thought that the transfer would practically be completed in nine months. The agreement on that point was not a definite one, but was subject to modifications according to exact information later on. Then, Dr. Koo, in stating that the Chinese delegation had made considerable concessions in order to meet the Japanese wishes, had cited as an instance the question of the improvements on and additions to the railway properties left by the Germans. From the Japanese point of view, however, the Chinese undertaking to pay for those improvements and additions could hardly be considered as a concession on China's part. He had thought that that would be quite a natural arrangement, for it was only proper for China to pay for whatever was spent by the Japanese authorities upon the permanent improvements and additions to the railway properties. He did not mean to deny that his Chinese friends had made some concessions, but, on the other hand, he hoped that they would agree that the Japanese delegation had gone very far—much farther than they had—to meet the Chinese viewpoint. Regarding the question of appointment of Japanese experts for the Shangtung Railway section, he had stated several times that Japan attached the greatest importance to the appointment by

China of a district traffic manager for that railway section on the recommendation of Japanese interests, as provided for in many of the Chinese railway loan agreements. He had also stated that a Japanese associate chief accountant should be enlisted in the service of this section. In the course of their discussions he had stated that if China should give satisfaction in regard to the appointment of those experts, the Japanese delegation would be ready to recommend to Tokyo the adoption in principle of the Chinese proposal regarding the form of payment and the question of period. But, unfortunately, the Chinese delegates did not find it possible to accept the point on which special importance was placed by Japan, and in that situation he and his colleagues felt that they had really done their best to meet the Chinese wishes within the limits of the responsibility which they could assume as delegates of the Japanese Government. He could assure his Chinese friends that he and his colleagues were no less regretful than the Chinese delegation that this difficult stage had been reached, but they had really gone very far, much farther than their instructions permitted them to go. So long as the essential points upon which they placed especial importance were not accepted, the only course left open to the Japanese delegation was to report the whole matter to Tokyo before proceeding any farther in the discussion. It was far from his intention to intimate that negotiation should be suspended. If it was to be suspended, he hoped it would be only for a short time. In the meantime he hoped, if agreeable to the Chinese delegation, that they might discuss other matters relating to the settlement of the Shantung question. He hoped, moreover, that the Chinese delegation would also be good enough to communicate with the Peking Government and obtain instructions. The whole question could not be satisfactorily settled without concession on both sides. He hoped that his Chinese colleagues would make the situation clear to their Government, and that they might again meet after both sides had received instructions.

Dr. Koo said that Baron Shidehara had made the Japanese position very clear. He had no intention to prolong the conversation too much, but it seemed to him that the whole difference, if it was a difference at all, centered around the point of expert assistance for the railway. Perhaps he ought to repeat that the Chinese delegation had understood from the beginning that in asking them not to insist upon cash payment the Japanese delegation had desired to retain interest in the railway of such nature as certain foreign powers generally had in railways in China. While they found great difficulty to meet the Japanese delegation on that point, the Chinese delegation had agreed to give Japan interest to the same extent as the British had in the Tientsin-Pukow line. It might perhaps be asked wherefore this particular line should have been mentioned. The answer was that the Tientsin-Pukow line was right next to the Shantung Railway and that it was China's intention to connect these two lines and run them as one system. It was desirable, therefore, that these two lines should be placed on the same footing as far as foreign appointment was concerned. He wished only to add that the question of the railway had now been discussed for 10 days under the impression—almost on the understanding—on the Chinese side, that the Japanese delegation throughout would have been communicating with their Government. It was rather a matter of surprise that they

had not obtained instructions before. As to the suggestion that meanwhile other questions should be taken up, it was rather difficult for the Chinese delegation to see their way to follow it. He might be allowed to recall that at the first meeting the Chinese delegation had asked that the railway question should be discussed first. In deference to the desire of the Japanese delegation, the question had been postponed a week, until the pressure upon the Chinese delegation had become too strong to postpone that question any further. They had now been engaged 10 days in the discussion of that question. If they were to proceed to other questions while leaving both sides in uncertainly as to the eventual outcome of the railway question, which was admittedly the most important of all, he and his colleagues wondered whether it would really be wise either for the Chinese or for the Japanese delegation. If they were not to come to an understanding on this important and complex question of the railway, but were to take up other questions while leaving this matter to future settlement, he doubted whether much time would be really gained. For it was possible that if, a week later, they were to take up the question of the railway again, after dealing with other questions, a great deal of time would be required to refresh their memories on various phases of the question. That was the view of the Chinese delegation with regard to the future course to be taken.

Baron Shidehara said that, while Dr. Koo expressed surprise that the Japanese delegation should not have obtained instructions earlier, it was practically impossible for them to do so until the decisive nature of the Chinese plan had been made clear to them. The discussions for the last few days had been entirely devoted to finding out the exact nature of the Chinese plan. Of course, the Tokyo Government had been kept informed of what had been taking place at the meetings. He might, perhaps, frankly state that in regard to the settlement of the railway question, the Japanese delegation had not received any instructions from home. As he had already stated, they had been proceeding without waiting for any instructions from home, taking upon themselves the whole responsibility for what they had so far done. As for his suggestion that other questions should be taken up pending further discussion on the railway question, it was based simply upon the idea that if the meeting should now be suspended it would give an impression to the public as if there were a break-up expected. He did not want to give that impression. In fact, there was no break-up. If instructions from Tokyo should be entirely at variance with the Chinese plan, then a break-up might arise. At present, however, he was really looking forward to some communication from Tokyo which would provide reasonable basis for continuing discussions. He had thought it would be useful to discuss other matters meanwhile, but if the Chinese delegation were not inclined to do so the only course was to adjourn until further call. He trusted, however, that the Chinese delegation were as anxious as the Japanese delegation to reach a settlement of the whole question. As he had said before, there must be found some means of adjustment. If that were the case, he did not see why other matters should not be taken up pending instructions from home.

Dr. Sze said that Baron Shidehara's apprehension on the score of the impression that the suspension of the conversations might give to the public mind might easily be disposed of. Moreover, if the sub-

ject of discussion were to be changed, it would become necessary for the Chinese delegation to make explanation to their own people. Therefore, so far as that part of Baron Shidehara's observation was concerned the result would seem to be the same either way.

Dr. Koo asked whether he was to understand that the Japanese delegation wished to await instructions on the mode of payment.

Baron Shidehara said that he was not quite sure if it would be accurate to say "the mode of payment," for the retention of certain interest in the railway, for instance, could not properly be called a question of payment.

Dr. Koo said that was what he meant in asking the question. The one point upon which the two delegations had not been able to agree was the question of expert assistance. He meant to ask if it was upon that point that the Japanese delegation desired to wait upon instructions.

Baron Shidehara said that the position was that the Japanese Government might prefer cash payment instead of treasury notes; he could not say at that moment what attitude Tokyo might take. The Japanese delegation proposed to submit the whole matter to their home Government. Should cash payment be preferred, the question of deposit had yet to be decided.

Dr. Koo said that he had referred to the question of Japanese expert assistance because he understood the Japanese delegation to attach special importance to that matter. He wondered whether the Japanese delegation had any preference as to the two alternative plans.

Baron Shidehara said that he could not say that the Japanese delegation had any preference for either plan. It was difficult for them to agree to the plan of payment by treasury notes on the terms offered them. For instance, as regards the interest Japan desired to retain in the railway, if it was confined to the extent of having a Japanese district engineer, they did not feel justified in recommending to Tokyo, on their own responsibility, that the plan should be accepted. If the plan of the payment by treasury notes was to be accepted, he felt that the question of traffic manager and chief accountant should have first to be decided in a way satisfactory to Japan, but the Chinese delegation had not been able to give satisfaction on the question of personnel. He would therefore like to leave the matter in the hands of the Japanese Government, who would consider the whole situation and come to a decision as to what they should do. It would not take long for the Japanese Government to give instructions to the delegates, for it had been kept informed of the results of previous discussions. But since the delegates themselves had not until that day clearly understood the exact nature of the Chinese proposition, it was impossible for the Japanese Government to have given definite instructions earlier. Perhaps the instructions might be sent almost any moment.

Dr. Sze said that, therefore, adjournment should be taken, in the hope that instructions might come to-morrow.

Baron Shidehara said that he hardly expected to have instructions so soon, though he would do his best to ask for instructions as soon as possible.

Mr. Hanihara wondered if he might ask a question. He desired to be informed if, in the situation as it stood, there was nothing for

the Chinese delegation to ask further instructions about from their Government.

Dr. Sze said that if they asked for instructions Peking would say that China had shown everything.

Dr. Koo said that, indeed, the Chinese delegation had shown every card in their hand, while, after 10 days, they still did not know what was the exact position of the Japanese delegation.

Mr. Hanihara suggested adjournment until Tokyo was heard from.

Baron Shidehara said that he sincerely hoped that the Chinese delegation would report the whole situation to Peking and get instructions.

Dr. Sze said the Chinese delegation were informing their Government every day.

Baron Shidehara asked if they had no further instructions to ask from Peking.

Dr. Koo said that the Chinese delegation had been exceeding their instructions considerably.

Baron Shidehara said that in that respect, the Japanese delegation was doing the same thing, and perhaps in a greater degree.

The communiqué was issued in the annexed form (Annex I).

SJC-17]

ANNEX I.

DECEMBER 20, 1921.

[For the press.]

Issued by the Chinese and Japanese delegations.

At the seventeenth meeting of the Chinese and Japanese delegates relative to the question of Shantung, held at the Pan American Union Building at 3 p. m. to-day, the two delegations discussed the question of the plan of payment in cash of China's liabilities regarding the Shantung Railway properties and also an alternative plan of the payment in Chinese treasury notes, having special reference to the question of the appointment by China of Japanese experts in the service of the Tsingtao-Tsinanfu Railway, as proposed by the Japanese delegation. These questions involving points on which it was found necessary for the Japanese delegation to consult with its home Government, the meeting adjourned at 6.30 p. m. pending receipt of instructions by the Japanese delegation from Tokyo.

EIGHTEENTH MEETING.

The eighteenth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 5 o'clock in the afternoon of Wednesday, January 4, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. Y. Tsai, Mr T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

THE QUESTION OF RAILWAY.

Baron Shidehara said that he was happy to feel that with the advent of the New Year they were able to resume consideration of the question of the Shantung Railway. The Chinese delegates would remember that at the last meeting he had recapitulated the progress of discussions on the question. He had stated that the only plan which the Japanese delegates had felt could be recommended to the Japanese Government as a substitute plan of the original proposal of the joint enterprise was a plan of ordinary railway loan agreement on the basis of terms of similar agreements of comparatively recent dates. At that time the Japanese delegates had had no authority from Tokyo to make such a proposal but they had taken upon themselves the whole responsibility to make that proposition, so that if that was agreeable to the Chinese delegates they might recommend the Tokyo Government to consider that new plan. Unfortunately, however, that plan had not been found acceptable to the Chinese delegates and the latter had offered two alternative plans. First, the plan of the immediate cash payment, and second, the plan of payment in treasury notes. After considerable discussions both the delegations had found, much to their regret, that they could not come to an agreement, and the Japanese delegates had thought that the only course left for them was to report the whole matter to Tokyo and ask for instructions. The Japanese delegates had now received instructions to the effect that the Japanese Government, being anxious to find a speedy and satisfactory solution of the whole question, would be ready to agree to the plan of the railway loan agreement, but that was the limit of their concession. It was not possible for them to agree to any plan short of an ordinary railway loan plan. In the situation, the Japanese delegates thought the only way left for them was to ask the Chinese delegates to reconsider the whole matter and the Japanese delegates would be glad to hear any suggestions which the Chinese delegates cared to make.

Dr. Sze said that in order to avoid any possible misunderstanding it would be advisable to have a clear notion of what was in the mind of Baron Shidehara. He wondered whether the Chinese delegates should consider what Baron Shidehara had said as final or as still subject to further prolonged reference home.

Baron Shidehara said that the Japanese delegates were quite willing to resume the conversations and exchange views in the matter. What he had stated was the substance of the instruction received from Tokyo.

Dr. Sze said that he wanted to know to what extent the conversations could be carried on to useful purpose. If only exchanges

of views were to be continued on vague lines, it would be mere waste of time. Therefore he wanted to be very clear on that point.

Baron Shidehara said that if Dr. Sze meant to ask if what he had said was final, he did not want to say that it was. To avoid such inference, he had said that the Japanese delegates were ready to hear suggestions from the Chinese delegates. Nothing was final between friends.

Dr. Sze said that he understood that certain steps had been taken in Peking by the Japanese minister in regard to the Shantung question. He was sorry that the Japanese delegates had not taken the Chinese delegates into their confidence.

Baron Shidehara said that there appeared to be certain misunderstanding as to what had transpired in Peking between the Chinese minister of foreign affairs and the Japanese minister there. The Japanese minister simply intended to ask the attitude of the new cabinet of China on the Shantung question. Of course, the Japanese minister had expressed his hope that a speedy answer would be given to his question, but nothing in the nature of finality had been spoken.

Dr. Sze said that the Japanese minister had wanted to have a categorical reply.

Baron Shidehara said that what the Japanese minister had asked was whether the Peking Government favored or were against the railway loan agreement plan. It would only be natural to make such inquiry of a new cabinet to ascertain whether its policy would be different from the policy of the outgoing cabinet. He had not full information as to the conversation which had taken place in Peking, but, so far as he had been informed, the Japanese minister simply put to the Chinese minister of foreign affairs a question as to whether the new cabinet was going to follow the same policy hitherto adopted. He had not said anything in an unfriendly spirit.

Dr. Sze said that, according to the information he had, Mr. Obata, under instructions from the Japanese cabinet, demanded of the Chinese Government a categorical reply as to whether the loan agreement plan was agreeable. The Chinese delegates were surprised at such development of affairs. They should have been taken into confidence by the Japanese delegates if such steps were to be taken. The British and the American friends at the table should also have been previously informed of any such *démarche* taken by Japan. In resuming their conversation, the Chinese delegates desired to know clearly to what extent the Japanese delegates had authority to negotiate.

Baron Shidehara replied that he and his colleagues had the same authority as before.

Dr. Sze said that if they were discussing the matter in the same way as before, and if finally the Japanese delegates were to say the same thing and refer the matter to the home Government, it would cause the Chinese delegates great inconvenience. He and his colleagues, therefore, desired to be clearly informed as to that point. After the Chinese delegates had offered two plans, and those two plans had been found unacceptable by the Japanese delegates, he desired to know what the Japanese delegates intended to propose.

Baron Shidehara said that what Japan now intended to propose was a plan of an ordinary loan agreement on terms of such loan agreements as China had concluded with other foreign nationals.

Dr. Sze said that one of the plans proposed by the Chinese delegates contained terms even more favorable than the terms of the Tientsin-Pukow Railway loan, and also the terms of the Kirin-Hueining Railway loan.

Baron Shidehara said that the Japanese proposal was that the loan contract should be made along the lines of loan contracts of comparatively recent dates.

Dr. Sze said that the Kirin-Hueining Railway loan was of a very recent date.

Baron Shidehara stated that that loan contract was still in a stage of preliminary agreement. It was only provisional and had not been signed.

Dr. Sze said that that agreement had not been signed because the Japanese financiers desired certain changes in the terms.

Baron Shidehara said that he had not yet studied the loan contract regarding the Kirin-Hueining Railway, but that he had in mind some loans contracted in 1913 and 1914. He understood that there were three or four loan agreements made in those years, and that since that time no new agreements had been concluded.

Dr. Sze said that as he remembered it had once been pointed out by Baron Shidehara that the plan of the loan agreement was brought up because the management and operation of the Chinese railway were not efficient enough. The Chinese experts had made special studies of that matter and made a comparative investigation of the Kirin-Changchung Railway and the railways under purely Chinese management. They further made comparative studies of the Japanese and Chinese railways, so far as statistics were available in regard to the former. Such studies tended to show that the Chinese could manage their railways efficiently. He would read to the Japanese delegates the statistics, but before that he would recapitulate the Chinese position in the question under discussion.

Here Dr. Sze read his statement (Annex I).

Dr. Sze, continuing, said that he had given a considerable length of time to reading the statement, which he would have avoided if he could have helped it. The Japanese disinclination to entertain either of the two plans might have been based on the misapprehension of the Chinese efficiency in management. He thought that it would be only fair to give that account of the actual condition of the Chinese railway. That statement was not made with any idea of disparagement of the Japanese railway administration. It was simply made with the hope that with such information the Japanese delegates might be able to see their way to reconsider the plans suggested by the Chinese delegates.

Dr. Koo said that his colleague had clearly summarized the various stages which the Chinese delegates had traveled through in order to meet the Japanese wishes. The gist of Baron Shidehara's observations seemed to be that the Japanese delegates now desired to revert to the position of asking China to accept the Japanese loan for the purpose of effecting payment for the Shantung Railway properties. That question of Japanese loan had been brought up before at one of the previous meetings and he recalled that the

Chinese delegates, on their part, had given reasons why they would not be able to accept that plan. Amongst others, he recalled two reasons which had been given. The first was that this Shantung Railway stood in a different position from the general class of railways for which loan contracts had been entered into by China. The program here was really about the act of sale on one side and the act of purchase on the other. It was very difficult, at least so far as he could see, to support the demand on the part of Japan that China, in paying for the Shantung Railway, should contract a Japanese loan, the more so because China had offered cash payment. In fact, that was the original Chinese proposal and they still preferred that plan. But, in deference to the Japanese desire to retain an interest in the railway, the Chinese delegates had adopted the method of deferred payment. The second reason that had been given was that the insistence by Japan upon the plan of the railway loan contract would give rise to various misgivings in China. Moreover, it would be difficult to explain to the Chinese bankers who had made offers to the Chinese Government. On the other hand, the Japanese proposal would also offer grounds for misgivings because, as the Chinese delegates understood, Japan had proclaimed her sincere desire to return to China the properties formerly held by Germany, and also because later they had offered to restore the railway to China's full ownership and operation. He now wished to know the real purpose of the Japanese Government in insisting on China taking a loan from Japan. By previous discussion of the question, he had been given to understand that the Japanese position had been to relinquish the idea of loan contract and consider the Chinese plan of deferred payment, and that the difference had centered around minor points—the mode of making deposits in the one case and the employment of experts in the other. To-day, he and his colleagues understood that the Japanese delegates desired to revert to the original plan of Japanese loan. He was not able to understand the reason why his Japanese colleagues should advance this proposal again. He should be glad to learn the grounds for this stand of the Japanese delegation.

Baron Shidehara said that, if he understood correctly, his Chinese friends seemed to presume that the Japanese delegates had agreed unconditionally to the sale of the railway properties, but that was not at all the case. It must be remembered that all terms of adjustment of the question under discussion were mutually interdependent. One of the terms was naturally the transfer of the property, and another term was that the railway loan plan should be accepted. They were mutually dependent. The Japanese delegates had not agreed to sell the railway unconditionally. If the Chinese delegates started from the presumption that the Japanese delegates had agreed to sell the railway properties the conclusion would be utterly erroneous. Dr. Koo had just said that the two Chinese alternative proposals had been agreed to, but the Japanese delegates had made it clear that the only plan which they could assume responsibility upon themselves to recommend to their Government was the plan of railway loan agreement. It was true that the Chinese proposals had been discussed, but then it was only for the purpose of clarifying the precise nature of those plans. The proposal of the Japanese Government itself had always been the plan of joint enterprise. That, however, being found unacceptable to the Chinese delegates,

he and his colleagues had said that they would recommend to their Government the plan of loan agreement as a substitute. The Chinese delegates had not felt free to agree to that substitute plan and there the whole matter had come to a deadlock. The matter had been submitted to Tokyo, and the Japanese Government now, for the first time, proposed the plan of loan agreement. What he desired to know was whether it was the intention of the Chinese delegates to consider this plan of railway loan agreement, to take that as a basis of further discussion. If they felt that there was no room for them to reconsider their position on that plan, he did not know what to do.

As to the long statement Dr. Sze had just read, he would like to reserve for a future occasion any comment that he might feel inclined to make in reply.

Dr. Koo said that, to confess the truth, he and his colleagues had not expected that their Japanese friends would again propose the loan agreement plan. He would be much obliged if reasons for Japan preferring the loan agreement to either of the Chinese plans could be given.

Baron Shidehara said that those reasons had been clearly stated on several occasions before. The Japanese point of view was that these railway properties were now Japanese property; that they were certainly not Chinese property. Now, in transferring to China those Japanese properties Japan desired to retain a certain interest in the railway, an interest such as other foreign nationals were freely permitted to possess in many Chinese railways. She proposed to hand over the railway properties to China while retaining only interest of that nature upon them. It was not meant to retain the management or operation of the railway, which would go to the Chinese Government. Even with regard to the employment of experts, Japan had expressed her intention that these experts should be placed under Chinese higher railway authorities.

Dr. Koo said that, in other words, the main consideration with the Japanese delegates was apparently the retention of some interest in the railway. If he remembered correctly, it was the contention of the Japanese delegates that the Chinese plan would result in discrimination against Japan. It was in order to forestall such impression on the part of the Japanese people that the Chinese delegates had proposed the plan of deferred payment. They were still ready to meet their Japanese friends that far.

Baron Shidehara asked if he understood that his Chinese colleagues meant to hold to either of the two plans proposed by China and that they could not consider the plan of railway loan agreement. As he had said a moment ago, the Japanese Government could not go any farther than the plan of loan agreement. That was the limit of their concession. He would like to know if the Chinese delegates could not agree in principle to that plan.

Dr. Koo said that the Chinese position was to meet by deferred payment the Japanese wish to retain interest in the railway.

Baron Shidehara said that Japan wanted to retain that interest by means of this loan agreement plan.

Dr. Koo asked why that particular form was desired.

Baron Shidehara said that that particular form happened to be quite common in regard to railways in China. He wanted to know

why China should find it difficult to adopt that plan for this particular railway.

Dr. Sze said that the analogy did not apply to the Shantung Railway, the line having long been built. China had taken the first opportunity to take over the Peking-Hankow Railway by making use of a loan from the Banque de Chine and the Hongkong & Shanghai Banking Corporation. The two banks had furnished the loan but had not made any demand for control of the railway. In regard to the Shantung Railway, China had agreed to give Japan much more than to the Belgian Bank and the Hongkong & Shanghai Bank.

Baron Shidehara said that if there were any difference between this case and the other cases, he felt that the benefit of that difference lay with Japan. In the present case the property in question was Japan's property. There was a fundamental difference between this and other railways. He did not recall any case where foreign properties had been handed over to China under such generous conditions as were now proposed by Japan.

Dr. Sze said that no useful purpose would be served by academic discussion of the legal phase of the railway; he would only mention that China had a share in the railway properties.

Baron Shidehara said that shareholders were not the owners of properties. He agreed with Dr. Sze that it would serve no useful purpose to stick to legal questions—only he desired to know if there was no room for the Chinese delegates to consider Japan's offer of an ordinary railway loan agreement. He did not mean to impose this plan upon them. He merely wanted to know if they could not reconsider their position in regard to that plan.

Dr. Sze said that the original Chinese proposal was to give Japan interest in the railway. If Baron Shidehara could give reasons for preferring the loan plan, it would help the Chinese delegates a great deal.

Baron Shidehara said that, as the Chinese delegates knew, the plan of railway loan agreement was a plan of compromise. The Japanese Government found it impossible to agree to the plan of a cash payment or to that of treasury notes. In insisting upon the original plan the Chinese delegates were apparently not prepared to make any more concessions.

Dr. Sze said that the Chinese delegates had made so many concessions, and that they must request to be told in what point their plan was unacceptable.

Baron Shidehara asked if it was clear to the Chinese delegates that the plan of cash payment would give no interest to Japan in the railway.

Dr. Sze answered in the affirmative.

Baron Shidehara asked again if it was clear to Dr. Sze that the plan of deferred payment would give to Japan interest in the railway to a very much less extent than that ordinarily granted to foreign capitalists in other railways in China.

Dr. Sze said that the plan of deferred payment would give to Japan much more interest in the Shantung Railway than the British had in the Tientsin-Pukow Railway.

Baron Shidehara said that Japan wished the same interest as foreign capitalists had in other railways. He wondered if it would be

useful at all to continue discussion of reasons and argument about legal technicalities.

Dr. Sze said that if the Japanese proposal were made clear to the Chinese delegates they would, perhaps, be prepared to make concessions. As it was, it was as if they were groping in darkness.

Baron Shidehara asked if the proposal was not really clear to the Chinese delegates.

Dr. Sze said that he regretted to say that it was not.

Baron Shidehara said that when he mentioned instances of railway loan agreements he did not have in mind such a railway as the Tientsin-Pukow Railway, which had so long been in operation. He meant later loan agreements which China had concluded with British, French, and other financiers.

Dr. Sze said that the most recent agreement was that for Kirin-Huei-ning Railway concluded with Japanese capitalists.

Baron Shidehara understood that that agreement had not been concluded yet.

Mr. Hanihara said that as far as he knew there was only a provisional agreement, and in that agreement there was no mention of the term of the loan. The negotiations had been going on for two years and had not yet been concluded.

Baron Shidehara asked if the Chinese delegates objected in principle to the plan of the railway loan agreement.

Dr. Sze said that the Chinese delegates could not agree to anything vague. In the Japanese note of September 7 the term "in general" had been used. Baron Shidehara now asked if the Chinese delegates agreed "in principle." Although these terms were very generally used, he confessed he did not know what was really meant by them.

Baron Shidehara asked whether the Chinese delegates were disposed to discuss the railway loan agreement.

Dr. Sze said that first of all he desired to have a clear notion in his mind in what respect the Japanese delegates found the plan of deferred payment unacceptable. If Baron Shidehara would be good enough to explain more in detail, he and his colleagues might be able to consider the Japanese proposal.

Baron Shidehara wondered whether Dr. Sze meant to say that the Chinese delegates could not see any difference between the loan agreement and the deferred payment.

Dr. Sze said that in a sense he saw the difference, but that under the plan of deferred payment the Chinese delegates had gone so far as to agree to the appointment of the Japanese district engineer. He desired to hear further explanation as to what was in the mind of the Japanese delegates, because he and his colleagues were trying to meet the Japanese delegates as far as possible.

Baron Shidehara thought that the Japanese delegates had clearly stated their position several times. The Chinese delegates knew very well that the deferred payment suggested a direct transaction between the two Governments, while the loan agreement suggested a transaction between the Chinese Government and Japanese capitalists. He had already repeatedly explained that it would not be proper for the Japanese Government directly to hold interest in the Shantung Railway after it was handed over to China.

Dr. Koo stated if the Japanese Government were to forego their direct interest in the railway, the situation would be clearer. The

Chinese Government would incur a debt to the Japanese Government. A government might not be free to hold such interest, but would surely be free to be a creditor; various European Governments were now owing large sums of money to the American Government. In other words, it was not the first time that the plan of loan agreement had been brought up and the difficulty of the Chinese delegation in accepting such a plan still remained to this day. Because of that difficulty, the Chinese delegates had tried hard to find a way to meet the Japanese wishes to retain interest in the railway in some form and it was in order to get the two delegations out of the difficulty that the plan of the deferred payment was conceived. He and his colleagues had felt happy because that mode of payment seemed to them to meet the wishes of both sides. The Chinese delegates still hoped that the form would be abandoned and the substance taken by the Japanese delegates. The concession on Japan's part would be very little, but to the Chinese delegates it would mean a great deal, because Chinese bankers had offered to raise the necessary funds for the purchase of the railway.

Baron Shidehara asked whether the difference between the deferred payment and the railway loan agreement was realized by the Chinese delegates.

Dr. Koo replied that undoubtedly there was a difference of form.

Baron Shidehara said he did not know whether it was a matter of form. There was a vast difference between a direct transaction between Governments and transaction between a Government and capitalists. The interest to be retained in the plan of the deferred payment would be the interest of the Japanese Government, whereas, under the loan agreement, the interest to be retained would be the interest of the Japanese nationals—of the private Japanese financiers concerned. There was a difference between the two, and that not only of form, but in substance.

Dr. Koo said that it seemed to the Chinese delegates that a much wiser thing to do would be to settle this question of debt between the two Governments without introducing any third party. The Japanese capitalists had no standing in this question. Their introduction would mean complication in the matter.

Baron Shidehara said that if that were the wise course for the Chinese delegates to take it was just to the same extent unwise for Japan to agree to it. The situation was quite clear. The Chinese delegates now recognized the difference between the plan of deferred payment and the plan of loan agreement. He wondered whether the Chinese delegates were not ready to discuss the ordinary loan agreement plan.

Dr. Koo said that a distinction should be made between a railway projected to be built and one actually built. That explained one of the reasons why the Chinese delegates could not accept the plan of loan agreement for the Shantung Railway, apart from various other important reasons.

Baron Shidehara said that at the same time the Chinese delegates should recognize the difference between the building of a new railway and the transfer of the railway and its appurtenant properties already in the hands of Japan.

Dr. Koo said that he, of course, recognized the difference and that was the reason why an analogy between the Shantung Railway and other railways would not really be useful.

Baron Shidehara said that Japan was now ready to hand over the Japanese properties on the basis of an ordinary loan agreement. That was a concession on Japan's part. He hoped that the Chinese delegates would consider the question overnight and see whether they could discuss the loan agreement.

Dr. Sze hoped that the Japanese delegates would also consider the Chinese proposal of the deferred payment.

Baron Shidehara said that the instructions received by the Japanese delegates were to the effect that it was not possible for the Japanese Government to discuss the plan of the deferred payment, which he understood to be the same thing as a payment in treasury notes.

Dr. Sze said that if the plan of paying in treasury notes was a stumbling block, then the Chinese delegates could think overnight to find a means of getting around it. If any other point should be impeding Japan's acceptance of the Chinese proposal he and his colleagues would be glad to think that point over. They were always anxious to meet the Japanese point of view.

Baron Shidehara said that he would be glad to hear the views of the Chinese delegates. He repeated that the treasury notes plan would in no case be acceptable to the Japanese delegates.

Dr. Sze appreciated what Baron Shidehara had said, but asked him to remember that the Chinese delegates would find it very hard to explain if they were to reject the patriotic offer of the Chinese bankers to provide the necessary funds to purchase the railway.

Baron Shidehara said that, according to what he had heard at the last meeting, he thought that it would be impossible for China to make the cash payment in one installment.

Dr. Sze said that if that was offering difficulty in the way of Japanese acceptance he should try to find a way out as to that point also. He was only too anxious to meet the Japanese delegates.

The communiqué was issued (Annex II) and the meeting adjourned at 7 o'clock until 3 p. m. to-morrow, if the meeting of the full committee on naval armament was finished in the morning, or at 5 o'clock if the said meeting should continue into the afternoon.

JAPANESE DELEGATION,

Washington, D. C., 4 January, 1922.

SJC-181

ANNEX I.

Statement by the Chinese delegation.

The conversations with regard to the railway have reached the following point:

The Chinese delegation has proposed two plans for the acquisition by the Chinese Government of the ownership and control of the railway.

First plan.—Japan to transfer to China the railway and its branches together with all properties appurtenant thereto, including wharves and warehouses and other similar properties, it being understood that the question of the mines appurtenant to the rail-

way shall be set apart for separate consideration. The said transfer to be completed as soon as practicable and not later than nine months after the coming into force of the agreement upon the whole Shantung question.

China to pay to Japan the actual value of the railway properties, consisting of the sum of 53,406,141 gold marks or its equivalent plus the amount which Japan, during the period of her administration of the railway, has actually expended for permanent improvements on and additions to the railway properties, less a suitable allowance for depreciation.

A Sino-Japanese joint commission to be appointed to arrange all matters of detail connected with the transfer of the railway and its appurtenant properties, or with the valuations of the improvements and additions.

China to make a cash payment for the total amount due for the railway and its appurtenant properties, the moneys for which payment to be deposited in a bank of a third power in the following manner: Two-fifths at the end of three months after the conclusion of the Shantung agreement, one-fifth six months after such date, and the remaining two-fifths nine months after such date. According to this plan no undertaking is to be given by China to employ upon the railway any officials of Japanese nationality.

This plan the Japanese delegation is willing to recommend to its Government only under condition that China deposit the total amount to be paid in a bank of a third power at or prior to the time of the beginning of the transfer of the railway, and this sum to be paid to Japan *pari passu* as the transfer is proceeded with.

Second plan.—The same as plan 1, except that payment is to be made by China in installments extending over 12 years, with an option on the part of China at any time after three years, upon giving six months' notice, to pay all remaining unpaid installments. The first installment is to be paid on the day on which the transfer of the railway and properties is completed, and the remaining installments to be paid in Chinese Government treasury notes secured on the revenues of the properties transferred.

China herself to select and to employ in the service of the railway a district engineer of Japanese nationality.

The Japanese delegation has agreed to recommend the second plan to its Government only upon condition that China appoint a Japanese associate traffic manager and Japanese associate accountant upon the railway who are to cooperate with the Chinese traffic manager and Chinese accountant, and under the authority of the Chinese general manager of the railway.

The Chinese delegation wishes to point out that the Japanese position is an unreasonable one as regards the insistence that China should pay into the bank, before the transfer is begun, the total amount to be paid, since this means not only that the money market will be disturbed by the creation in the bank of such a large credit in favor of the Chinese Government, but that the Chinese Government will, without any real necessity, lose a large amount of interest upon the sum thus deposited in advance of the time when it will need to be paid out.

As regards the insistence of the Japanese delegation that, if the second plan of deferred payments is adopted, a Japanese traffic manager and Japanese accountant, nominated by the Japanese Government, should be appointed by the Chinese railway administration, this also is unreasonable.

A traffic manager has control over the character of service to be rendered shippers and the rates which will be charged them. This position thus would give to the Japanese not only the control over the revenues and expenses of the road to a large extent, and, therefore, make its finances largely dependent upon their good will, but it would put within their keeping the most powerful weapon known to commercial warfare, and would permit of practically an unlimited economic exploitation of the territory served by the railway to the detriment of the Chinese merchants. The demand is thus one that is inconsistent with the avowed intention and desire of the Japanese Government that the railway should be returned to Chinese control.

The position of the Chinese on this point can not be yielded without turning its back on 25 years of progress. From 1896 until 1908 the Chinese, their central Government, their provincial governments, and the general population resisted terms dangerous to their independence by every expedient known to desperation. With the signing of the Tientsin-Pukow agreement, however, a new attitude toward foreign assistance was brought about, and "Pukow terms" ever since have been considered synonymous with the terms satisfactory alike to the Chinese people and the other contracting parties. Japanese investors themselves have recognized the propriety of such terms by naming them specifically as the basis for their latest contract for construction in Manchuria; namely, on the Kirin-Huening line. Pukow terms provide that "after the completion of construction, the Chinese * * * Government * * * will appoint an engineer in chief, who during the period of the loan shall be a European, without reference to the syndicate."

This engineer in chief was appointed for the precise purpose of guaranteeing that the way and structures of the line should be adequately maintained as a protection to the creditor. But the Chinese delegates have even strained the meaning of "Pukow terms" in the effort toward satisfying the objections of the Japanese delegates. While "Pukow terms" provide, not for the appointment of a German or a British subject, but merely for "a European," the Chinese have offered to appoint specifically a Japanese, rather than merely an Asiatic or a foreigner. Further stretching of these terms would jeopardize the fulfillment of any compact arrived at under these negotiations. A quarter of a century of struggle is at stake.

The principal justification urged by the Japanese for the appointment of the traffic manager has been what was conceived to be the necessities of the Japanese shippers along the line of the Shantung Railway for efficient service. Doubts have been expressed as to the ability of the Chinese to give a service as efficient as that now rendered by Japanese. It has been proposed by the Chinese to consolidate the Shantung Railway with the Tientsin-Pukow Railway. The efficiency of the Shantung Railway under Chinese operation is to be indicated, therefore, by the efficiency of the Tientsin-Pukow Railway. It is not possible at the present time to compare the efficiency of the Tientsin-Pukow Railway with that of the Shantung Railway for the reason

that no statistics on the Shantung Railway have been made public, but Japanese management on another Chinese railway is exhibited upon the Kirin-Changchun Railway and affords an excellent comparison. For example, the percentage of revenues absorbed by operating expenses are 69 on the Kirin-Changchun Railway as against only 48 on the Tientsin-Pukow Railway, clearly a most favorable showing for Chinese management. Besides, the rates upon the Tientsin-Pukow Railway are considerably lower in case of passenger fares and more than 50 per cent lower in the case of freight rates. Operating expenses per 1,000 service units (ton kilometer and passenger kilometer) are only \$5.70 on the Tientsin-Pukow Railway, while they are \$15.52 on the Kirin-Changchun Railway. The trains hauled by the Tientsin-Pukow Railway carry twice the number of tons and 50 per cent more passengers than those of the Kirin-Changchun, yet the fuel consumption per train kilometer on the Chinese-managed line is fully a third lower than that on the Japanese-managed line. It has been commonly said that the inefficiency of Chinese lines was to be found in the large number of workmen employed compared with the amount of work to do. Yet on the Tientsin-Pukow Railway there are only 14.2 men per kilometer of line, while on the Kirin-Changchun Railway the average is 19.4.

South Manchurian Railway statistics are so limited that it is impossible to make comparison with other lines to any great extent. However, it appears that in 1919 the operating expenses absorbed over 45 per cent of gross revenues on the South Manchurian Railway, compared with 34 per cent of the Peking-Hankow (a younger line under purely Chinese management). The net revenues on the South Manchurian represent a return of less than 16 per cent on the property, while on the Peking-Hankow Railway they represent a 17 per cent return. Indeed, it can be demonstrated that the management of Chinese Government railways as a whole is not at all inferior to that of Japanese railways.

Comparison can be made between the Chinese Government railways as a whole and the imperial Japanese railways. For example, in Japan 59 per cent of the revenues are required to pay operating expenses, while in China during the same year only 48 per cent was so required. The net revenue of the Japanese railways represents a return of 7.8 per cent on the property, whereas the net revenue of the Chinese railways represents a return of 9.2 per cent on the investment. All of this is accomplished with rates which are very similar. Under normal rates of exchange, Chinese third-class passenger fares are slightly higher, but Chinese freight rates are slightly lower than Japanese rates.

On the imperial railways of Japan the number of employees per kilometer per line averages slightly higher than on the Chinese Government railways.

Returning to the subject of the Tientsin-Pukow Railway, with which the Shantung Railway may be consolidated, the excellent results obtained upon that line are mere promises of what is undoubtedly sure to come. This line has been open to traffic only about nine years. As is well known, a new line is unable to show as favorable results as one which has a longer history. For example, the operating ratio, as stated above, in 1919 was 48; in 1915 it was 62. The returns upon the investment, which in 1919 was 7.2 per cent, in 1915

was only 1.8 per cent. The average train load has increased from 206 tons in 1915 to 319 tons in 1919.

It is confidently asserted that, given sufficient time to develop traffic, Chinese railways are second to none in efficiency, measured; of course, by the needs of the territory served. This is shown by the following comparison between lines over 200 kilometers in length, in which it is shown that the older the line the better it pays:

Line.	Date completed.	Yield on investment.
		<i>Per cent.</i>
Peking-Mukden.....	1898	18.0
Peking-Hankow.....	1904	17.0
Cheng Tai.....	1907	8.6
Shanghai-Nanking.....	1908	7.5
Tientsin-Pukow.....	1912	7.2
Peking-Suiyuan.....	1916	5.7

There are forces, other than mere time, working toward the further improvement of Chinese railways.

When the Republic succeeded the Empire in 1912, it immediately started upon a vigorous program. This program consisted of two parts: (1) Increased construction, and (2) improved management of the existing lines. Within three years contracts for nearly 10,000 miles of lines were let, contracts which to this day remain unfulfilled for the reason that contractors could not muster the funds necessary. But the administrative program has proceeded effectively and rapidly.

The new Republic found that each railway in existence was a separate and distinct entity, always with a national characteristic and often with standards and practices which reflected strong personal tendencies on the part of its officers. Each of these 14 lines rendered its service absolutely without reference to the existence of the other. There was less cooperation between these railways in China than between the railways of the different Governments of Europe. Within the space of nine years practically all of this has been changed. Passenger train schedules which made possible through connections, through tickets, and through baggage service were first provided for. Shortly afterwards through parcels (express) service was added and at the present time a C. O. D. feature is in effect. A through train service has recently been added between Shanghai and Peking, and during this year there will be installed five solid all-steel, all-Pullman trains running between Shanghai and Peking, provided the train ferry across the Yangtse River is completed in time.

The difficulties in the way of through freight service were considerably greater; but to a large extent these have been overcome. Interchange of rolling stock and through billing arrangements were instituted something over a year ago and the accounting for all of these inter-line matters is now taken care of by a central organization known as the clearing house, which is made a subordinate bureau of the ministry of communications. During this same period, also, a uniform classification for goods, uniform conditions of carriage, both for freight and passenger traffic, have

been promulgated and put into force. Most difficult of all has been the complete introduction of the metric system, both for weights and distances. This required three years of preparation on the part of the English lines, but all tariffs are now published with the metric system only. Effective February 1, 1921, shippers were offered an optional service, either at their own or at railway risk.

During the past season conferences of operating officers have been held looking toward a standardization of operating rules. A standard system of car reports and rules for the distribution of cars to shippers has been adopted.

For four years the subject of physical standards has been under active consideration. The introduction of the metric system was one phase of this, but because of its bearing upon interchange of rolling stock standard specifications for freight cars have received the most attention, and standards have been adopted for box cars, flat cars, and gondolas. Standard clearances also have been put into effect.

But the subject which has been longest under consideration and is probably most nearly complete is that of standard accounts. As early as 1915 uniform classifications were promulgated covering capital, revenues, expenses, income, profit and loss, and balance sheet accounts, together with rules for train and locomotive kilometrage. A system of annual reports was also installed and five such annual reports covering the financial and physical operations of all the Government railways have been issued, while a sixth will shortly appear. In the meantime, also, uniform accounts for stations, for stores, and for construction engineering have been adopted. Workshop accounts and fuel efficiency accounts are next on the program for consideration.

It is too early to appraise fully the value of this work toward standard administration. The United States and Japan are both familiar with the necessity of and with the great economies which result from the integrating of several railway lines into a single system. The results which have been obtained in Japan and America will certainly find their counterpart in China. Splendid as has been the financial and physical performances of the Chinese railways when compared with the railways of other countries, these performances are sure to be improved as administrative standardization proceeds. The Chinese delegation, therefore, denies the insinuation of inefficiency which has been made against Chinese management. It can only believe that the insinuation was made without a full knowledge of the facts, and especially without a knowledge of the vigor with which Chinese management has revised and improved the instruments of administration.

Only when the best Japanese railways are compared with the worst Chinese railways does any advantage to the Japanese appear. There is every reason for the Chinese to wish to make the Shantung Railway prosper. For every Japanese whom it serves, hundreds and thousands of Chinese are served. Its profits would go to the credit of the Chinese railway treasury. Besides, in view of the statements which have been made in this conference, the Chinese management would conceive it to be somewhat under challenge, and accordingly be inspired to make a showing even better than that to which their ordinary energies would attain. The Chinese also are not un-

mindful that their stewardship upon this railway will be watched in other quarters where other railways similarly situated are concerned. More than the mere dollars and cents are involved, and the satisfaction of foreigners of more than one nationality is at stake. Hence, the interest of the Japanese nationals as creditors, as shippers, as purchasers of commodities produced in Shantung, or as sellers of Japanese commodities sold in Shantung will be adequately protected when that railway is under Chinese management. It is not too much to say that the satisfaction of Chinese aspirations in this particular is fundamental to any betterment in the relations between China and Japan.

ANNEX II.

JANUARY 4, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The Japanese delegation having received instructions from Tokyo on the subject of the Shantung Railway, the Chinese-Japanese conversations relating to the Shantung question were resumed at 5 p. m., Wednesday, January 4, 1922, in the Governing board room of the Pan American Union Building. The meeting adjourned at 7 o'clock p. m. until to-morrow, when discussions will be continued.

NINETEENTH MEETING.

The nineteenth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 5.30 o'clock in the afternoon of Thursday, January 5, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. Y. Tsai; Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori, Mr. K. Kanai.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

THE RAILWAY QUESTION.

Dr. Koo said that at the end of the last meeting he believed both the Japanese and Chinese delegates had expressed their hope that the plan proposed by each side should be considered overnight by the other, in order to see whether any way might be found to bridge over the difficulties. The Chinese delegates, on their side, had given very careful consideration to the Japanese proposition. They were,

however, not able to see any way in which they could overcome the difficulties which confronted them in accepting the Japanese offer as a basis of the discussion. That might be very disappointing to the Japanese delegates. However, if the Chinese delegates declined to entertain the Japanese views, it was only because they did not see their way clear to adopt any other way. On the other hand, they were very anxious to bring the discussion to an early close, and so they now wished to make further concessions on their alternative plans in the hope that the Japanese delegates might find the Chinese proposal more acceptable than it had originally stood. With reference to the method of cash payment, the Japanese delegates had desired, at one of the previous meetings, that a single deposit should be made instead of three deposits to be spread over nine months in which the transfer of the railway properties was to be completed. If the cash payment was more acceptable to the Japanese delegates, the Chinese delegates would be ready to accept the plan of one single deposit on a specific date, leaving Japan to decide whether it should be made before, or at the time, the transfer of the railway was begun. On the other hand, if the Japanese delegates still found the cash payment unacceptable, the Chinese delegates would be ready to make a further concession on the plan of the deferred payment, substituting another kind of security for the treasury notes. This new security was the notes of Chinese bankers. With these two further concessions, the Chinese delegates hoped that the Japanese delegates would find the two Chinese alternative plans more acceptable. He hoped that the Japanese delegates would cooperate with the Chinese delegates to expedite a satisfactory agreement on the railway question.

Baron Shidehara said that Dr. Koo had just referred to the difficulties on the Chinese side to agree to the railway loan agreement. He would like to hear his explanation in a few words as to these difficulties.

Dr. Koo said that he had tried yesterday and on previous occasions to make clear the various difficulties which stood in the way of the Chinese delegates, but he would be glad to recapitulate briefly the reasons which the Chinese delegates had for maintaining their position on the question of the railway. In the first place, the Chinese delegates could not hope successfully to explain away to the people at home why China should accept the Japanese loan when China's own bankers had offered to provide the necessary funds. In the second place, the present Shantung Railway question was one different from that of an ordinary railway loan. Heretofore such loans had been contracted for the actual construction of a new line, but in the present case the railway had actually been in operation for many years. The reasons which had given rise to other loan agreements did not exist in this case. To entertain such a course as suggested by the Japanese delegates would neither be wise nor necessary. In the third place, not only the Chinese delegates, personally, were unable to see the wisdom of accepting a Japanese loan as the best means for payment, but the instructions from the Chinese Government had made it perfectly clear that he and his colleagues ought not to go beyond the two Chinese alternative plans. In the fourth place, the idea of the Japanese loan would not be wise, because it

would give rise to misgivings in China. By the settlement of the Shantung question it was hoped to remove all causes of misgivings which had stood in the way of friendly relations between the two countries. Briefly, these were the reasons upon which the Chinese delegates placed their point of view. They therefore urged that the Japanese delegates would consider the Chinese alternative plans. They would be glad to hear from the Japanese delegates any objections to any feature of the plans the Chinese delegates had just suggested.

Baron Shidehara said that he should also be very brief. Dr. Koo had stated that in the first place it would be difficult on the part of the Chinese delegates to explain to the Chinese people. It appeared to him that there were very good reasons for them. The Shantung matter had a long history. Japan had made concessions repeatedly in meeting the Chinese wishes. The original position Japan had taken had been, as would very well be remembered, that Japan was entitled to the full ownership and operation of the railway, but since the Paris peace conference repeated concessions had been made. The loan agreement plan was the last compromise on Japan's side. Unless both the delegations were able to make compromise on each side, the question would never be brought to a satisfactory close. If the Chinese delegates would explain the whole history, it would not be difficult to convince the Chinese people of the reasonableness of the Japanese attitude. Secondly, as to the difference between the Shantung and other railways, he knew that there was a difference, but that difference tended to show that the Japanese proposal was quite a modest plan. The railway properties had never been China's properties, and now Japan was ready to hand it over to China, and in handing it over was ready to discuss the terms. It was true that the railway had already been constructed, but it was in the Japanese hands. The difference, if any, would support rather than operate against the Japanese proposition. In the third place, Dr. Koo had spoken of the instructions from the Chinese Government. However, the instructions received by the Japanese delegates were also quite explicit. They were not authorized to proceed any further than the railway loan agreement plan. In the fourth place, as to the misunderstanding likely to be generated among the Chinese people if the loan plan was to be agreed to, he would say that the same difficulty existed on the Japanese side if the Japanese delegates were to accept one of the Chinese alternative plans. As he had stated on several occasions, the Japanese people would raise the question why the Japanese capitalists should be placed in a less favorable position than that allowed to other nationals in relation to the Chinese railways.

In any case, the point at issue was this: Japan had proposed the plan of the railway loan agreement under which the Japanese capitalists would be made creditors of China. On the other hand, the Chinese delegates had offered the plan of a deferred payment under which the Japanese Government itself would be made the creditor. The Chinese delegates had observed the day before that the difference between the Japanese and Chinese proposals was merely a matter of form. He was not quite sure about that. He wondered whether something more than the question of form was not involved in the issue. To be quite frank, the Japanese delegates were naturally

apprehensive that if the plan of deferred payment were to be accepted, Japan might be placed in a substantially weaker position than that which she would have been able to take under the ordinary railway loan plan, when she proceeded to the discussion of the concrete terms of the proposed financial arrangement. It might well be contended that Japan, by agreeing to the plan of the deferred payment, had practically agreed to adopt as the basis of the terms of the proposed financial arrangement the plans which were substantially different from those that were generally found in a great many cases of ordinary loan agreements. What the Japanese delegates would like to make clear was this, whether in the contemplation of the Chinese delegation the point at issue was simply a question of form, consisting only in the question as to who were to be made the parties to the financial agreement, or whether it was intended that such difference should affect the actual terms of the proposed arrangements. If, as was apparently presumed by the Chinese delegates, the question was merely a matter of form, then the question would be reduced to the mere question of financial technicality, but if it was more than a mere matter of form, then the Japanese delegates would be confronted with a great difficulty in accepting such an arrangement. He therefore would like to know the exact views of the Chinese delegates in regard to the point at issue.

Dr. Koo said that he wished to make a few observations before he tried to answer Baron Shidehara's question. Baron Shidehara intimated that if the deferred-payment plan was accepted it would give the impression to the Japanese people that a different treatment had been meted out to them compared with other nationals. However, such would not be the case. Chinese bankers were to provide the money. Only when financiers of some other nationality were asked to finance the railway properties, the question of an unfavorable treatment would arise. As regards Baron Shidehara's apprehension, that Japan would find herself in a weaker position than other countries interested which were creditors of China in certain railway loans, that was again a view which was not altogether corresponding with the actual situation. In the case of ordinary loans for financing the construction of a new line, the bankers could not tell whether, or how soon, they could expect sufficient revenue from the railway. For that reason considerations had to be given with a view to safeguard the foreign investments. In the present case the situation was entirely different, and therefore the method of paying by treasury notes had been advanced. It was now offered that even bankers' notes would be issued on the security of the revenue of the line. The earning capacity of the Shantung Railway was known to be very great. Therefore there was not the same risk as was assumed by bankers of any country in contracting new loans. Baron Shidehara further seemed to fear that if Japan accepted the deferred payment plan it might give less favorable terms to Japan than under ordinary loans. That, again, was a point about which the Chinese delegates differed with Baron Shidehara. The Shantung Railway stood in a class of its own. If Baron Shidehara apprehended that the arrangement would be taken as a precedent for future negotiations or for outstanding loan negotiations, the Chinese delegates would find no difficulty in giving assurances to the Japanese delegates on that point. Now,

before answering the question as to whether the difference was merely one of form, he desired to know what was precisely in the mind of Baron Shidehara in putting him that question. He wanted to be informed especially whether it was the idea of the Japanese delegates that they would accept the plan of deferred payment or treasury notes, provided, generally speaking, the same terms as under ordinary loan agreements were to be given.

Baron Shidehara said that the point at issue was whether deferred payment or loan should be accepted. He remembered that yesterday Dr. Koo had stated that the difference was only in form. What he feared was that the difference was something more than a mere matter of form. If the Japanese delegates accepted the Chinese plan of deferred payment, they would in any case have to adjust the terms of the financial arrangement; and when they proceeded to negotiate the precise terms of the arrangement, China might say that that was not a loan agreement and insist upon entirely different terms from what were found in general in a loan agreement. He therefore wanted to ascertain whether it was simply a matter of form, in which case the question seemed to be an easy one. If, however, that was not the case, then a question very difficult to adjust would present itself. There was still another point on which he desired to be enlightened. Dr. Koo had said that the revised plan to make payment by Chinese bankers' notes was a concession on China's part. He could not see why that was a concession.

Dr. Koo said that the new notes were bankers' notes, and not an ordinary merchant's notes. As the treasury notes had been found unacceptable to the Japanese delegates, he and his colleagues had tried to meet them with this new plan.

Baron Shidehara asked if that implied any concession on the part of China. He did not think it made any difference to China whether the payment was made in treasury notes or in the notes of Chinese bankers.

Dr. Koo said that he had understood that there was difficulty for Japan to take treasury notes, so the Chinese delegates offered bankers' notes. It did not mean that they had withdrawn the plan of treasury notes.

Mr. Hanihara said that he might be permitted to say a few words to make clear the meaning of the railway-loan agreement, about which he thought there was some misapprehension on the part of the Chinese delegates. They had said that they could not accept a Japanese loan as a means of payment of the price of the railway, but it was not a question of paying the price of the railway. The railway-loan plan had been offered as a concession by Japan in this sense that while Japan's original plan had been to make the railway into a joint enterprise, in deference to the wish of the Chinese Government and people, Japan had taken a step further and offered to hand over the title to the railway to China. She had never proposed to sell it to China, but to transfer it to China in such form that she might retain certain interest in the railway to which she still believed she was entitled. The question was not, therefore, one of how to provide money for the payment of the railway. He wondered if the Chinese delegates had noticed that difference.

Dr. Sze said that the Chinese people wanted control, clear and indisputable control, over the railway. That was the underlying

motive of the Chinese delegates in desiring a clear settlement. If Japan were still to retain half or part control of the railway, such a settlement could never be acquiesced in by the Chinese people. That was exactly what the Chinese delegates wished to avoid.

Dr. Koo said he hoped the Chinese position had been made clear. The subject matter clearly ought to be called a debt. The idea of loan was not, therefore, fit to be taken as a basis of discussion because the question was a liquidation of a debt. In order to meet the Japanese wish to retain interest in the railway, the Chinese delegates had offered to nominate a Japanese national as district engineer of the railway. While that might not be entirely satisfactory to the Japanese delegates, he hoped they would regard it as an important interest.

Baron Shidehara said that in order to prevent the possibility of misunderstanding, he wanted to make it clear that he had not intimated anything in the sense of accepting the Chinese plan of deferred payment. He had merely asked whether under their plan of deferred payment the Chinese delegates were ready to accept the terms of an ordinary loan agreement. He did not want, in asking that question, to convey any idea that he intimated inclination to accept the Chinese plan, which he and his colleagues could not do under the instructions they had.

Dr. Koo said that he had been vaguely hoping, after listening to Baron Shidehara's observations, that the Japanese delegates might see their way not to insist upon the plan of a Japanese loan agreement, but the statement Baron Shidehara had just made seemed to dissipate any hope he had entertained. Still he was not sure if he really understood clearly the present position of the Japanese delegates. Should it be their position that they could not agree to either of the Chinese alternative plans upon which further concessions had been made to render them more acceptable, he must express deep regret because he felt that he and his colleagues had exhausted their ingenuity in finding ways and means to meet the Japanese desire. Before stating the Chinese position definitely he would like to have a clear statement if his Japanese friends really considered neither of the Chinese plans as acceptable to them in principle.

Baron Shidehara said that the Japanese position was that neither of the Chinese alternative plans in their present form was acceptable to the Japanese delegates. They were compelled under instructions from home to hold to the plan of the railway loan agreement. It was not, however, quite clear to him what Dr. Koo had in mind as to the difference between deferred payment and loan. He wondered if Dr. Koo still considered the difference as a question of form only.

Dr. Koo said that in reply to that question he would say on behalf of the Chinese delegation that if the Japanese delegates found neither of the two alternative plans acceptable to them in their present form, the Chinese delegates would be disposed to consider in what respect their plans could be modified. They would be glad to consider Japanese suggestions along that line, provided they could understand that these plans would be taken as a basis of settlement. If, on the other hand, the Japanese delegates felt it necessary to insist upon a plan based on Japanese loan, then he should hesitate to proceed to consider modifications of either of the Chinese plans, lest at the end of the dis-

cussion the Chinese delegates should still find themselves where they had stood at first, as had been the case before. He did not, of course, attribute the delay in progress principally to the Japanese side. He merely urged the desirability of making speedy progress.

Baron Shidehara said that he had not yet received a very clear answer to the question he had asked. He had asked Dr. Koo whether he considered the difference between the Chinese and Japanese proposals simply as a matter of form, or whether it was his intention to say that the Chinese delegates would be ready to accept in substance the terms of the railway loan agreement.

Dr. Koo said that in answer to that question he wished to say that if the Japanese delegates would be prepared to waive the idea of the Japanese loan the Chinese delegates would be ready to consider any suggestions on the basis of the plan of deferred payment in general harmony with the substance of the existing railway loan agreements, but without taking the form of a loan and within the limits of keeping the railway under full Chinese control, operation, and management, as Baron Shidehara had stated to be his desire on more than one occasion.

Baron Shidehara said he was afraid he could not entertain much hope that the Japanese Government would consent to give up the plan or railway-loan agreement; but the question with which he was confronted was a very difficult one; he would wish that the meeting might adjourn in order that the proposition might be considered overnight.

Dr. Koo said he hoped what Baron Shidehara had just stated merely represented apprehension on his part. If the Japanese delegates should still consider as unacceptable this new suggestion, which had been made in all sincerity on the part of the Chinese delegates to meet the Japanese desire, he had to question himself whether some other means of reaching a settlement should not be sought. Since yesterday's meeting he and his colleagues had given much consideration to the Japanese position and their own position, and in order that they might not expose themselves to any criticism that they had resorted to other methods than these conversations, they had really strained themselves to find a way to meet the Japanese viewpoint. It was for that purpose that further concessions such as he had stated before, both in regard to the plan of cash payment and to that of deferred payment, had been made. The Japanese delegates on their part seemed to have some difficulty to accept these plans without incorporating some of the substance of the terms of the existing railway loan agreements in the Chinese plan of deferred payment. The Chinese delegates had gone out of their way to adopt the formula which he had just read. If that was still unacceptable he could not but feel that he and his colleagues owed it to themselves to seek some other means of reconciling the difference of views between the two delegations. He did not know whether the Japanese delegates were equally disposed to solicit the aid and friendly offices which Messrs. Hughes and Balfour had been good enough to offer both delegations, in the hope that they might be able to suggest some new way out of the difficult position in which the two delegations found themselves, so that the discussion might be settled without unnecessary delay.

Baron Shidehara said that Dr. Koo had put to him an entirely new question, which he felt it difficult to answer offhand. He

hoped that the Chinese delegates would realize the position of the Japanese delegates. He had, of course, no knowledge of what instructions his Chinese colleagues had received from home. On the part of the Japanese delegates, however, instructions were quite explicit. They had to insist upon the plan of railway loan agreement, and anything that fell short of that plan was very difficult for them to accept.

Dr. Sze said that the whole idea of the Chinese delegates was to expedite the matter. They had been making concessions one after another. To-day they had again made repeated concessions. They had gone to the utmost limit. If their last proposal was still unacceptable there was nothing left for them but to ask the good offices of Messrs. Hughes and Balfour. It would be necessary to give them time. Unless the Japanese delegates thought that the Chinese proposal could form the basis of settlement, no useful purpose would be served by causing further delay. The delay of more than two weeks had already given bad impression outside.

Baron Shidehara said that he did not wish to repeat what he had already said, but to be perfectly frank, he did not understand how the revised Chinese plan could in any way be considered as a concession on the part of China. In the instance of cash payment it had been proposed that the whole amount should be deposited, but no definite period for the deposit had been given. As for the plan of deferred payment, the Chinese delegates had simply offered bankers' notes instead of treasury notes. He did not see how that could make any difference to China.

Dr. Koo asked whether the Chinese delegates were then to understand that the Japanese delegates were not able to consider the formula just proposed.

Baron Shidehara replied that he had said he would consider that formula overnight. In saying so he did not mean that the Japanese delegates would be ready to accept it.

Dr. Koo asked if it was Baron Shidehara's idea that he did not wish to express opinion now, but that he wanted to study it first. Baron Shidehara answered in the affirmative.

Dr. Sze said that the Chinese delegates wished a speedy solution.

Baron Shidehara said that the Japanese delegates entertained the same wish.

The press communiqué was issued (Annex I).

Adjourned at 8 o'clock p. m. until 3 o'clock, January 6, 1922.

JAPANESE DELEGATION,

Washington, D. C., January 5, 1922.

SJC-19.]

ANNEX I.

JANUARY 5, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The nineteenth meeting of the Chinese and Japanese delegates on the subject of the Shantung question was held in the governing board room of the Pan American Union Building on Thursday afternoon, January 5, 1922, at 5.30 o'clock. The discussion on the Shantung Railway was continued. The meeting adjourned at 8 o'clock until 3 o'clock to-morrow afternoon.

TWENTIETH MEETING.

The twentieth meeting, held in governing board room, the Pan American Union Building, Washinton, D. C., at 3 o'clock in the afternoon of Friday, January 6, 1922.

PRESENT.

China.—Dr. Sao-Ko Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. Y. Tsai, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr E. Kimura, Mr. H. Saito, Mr. K. Kanai, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

Baron Shidehara said that the Japanese delegates had given very serious consideration to the Chinese proposal made at the meeting of the day before and they had been compelled, with much reluctance, to state once more that, consistently with the terms of the instructions from Tokyo, they did not see how they could find their way to agree to any plan falling short of the plan of the ordinary railway loan agreement. They had repeatedly explained that the only plan which Japan could possibly accept as a substitute for the Japanese original plan of joint enterprise was the plan of a railway loan agreement on the basis of terms of similar agreements which China had concluded with various foreign nationals in recent years, say 1913 to 1914. In order to present the Japanese position in a more concrete form he would propose as the terms of arrangement the following:

“(1) The period for which the loan was to run should be fixed at 15 years, while China should have an option for redeeming the outstanding liability, upon six months' notice, after five years from the date of the agreement.

“(2) A Japanese traffic manager and chief accountant should be engaged in the service of the Shantung Railway.

“(3) The details of the final arrangement should be worked out later on at Peking between the representatives of the two parties to the agreement.”

It would be observed that the terms now offered were decidedly more favorable to China than in the case of similar agreements which China had entered into with various foreign capitalists in recent years. The Japanese delegates sincerely hoped that those terms would commend themselves to the serious reconsideration of the Chinese delegates.

The Chinese delegates had further proposed the day before that the good offices of Mr. Hughes and Mr. Balfour might be asked for the settlement of the pending difficulties. While, of course, placing utmost confidence in the judgment of these statesmen, he would like to say that the terms of the telegraphic communications from

Tokyo, instructing the Japanese delegates to maintain the plan of the loan agreement, were quite explicit and that in the present situation the Japanese delegates were not in a position to agree to ask for the American and British good offices as proposed by the Chinese delegates on the previous day.

Dr. Koo said that he and his colleagues had listened to the statement of Baron Shidehara with great attention. They could not conceal their sentiment of deep regret that after so many meetings and such long discussions the Japanese delegates should revert to the question of the Japanese loan. He recalled that when first the Japanese delegates had brought up this aspect of the railway question he hoped the Chinese delegates had made clear the reasons why they could not make it the basis of discussion. The Japanese delegates were good enough to indicate their willingness to proceed on the basis of the two alternative plans proposed by the Chinese delegates. It would be recalled by the Japanese delegates also that it was at least under that impression, to put it mildly, that both delegations had devoted several meetings to the exchange of views on the details of the two Chinese proposals. Now, at this last stage of their conversations on this question, the Japanese delegates desired to insist upon a proposition which was really, to use a metaphorical expression, a virgin soil. A great deal of labor had been spent on the two alternative plans proposed by China, and the Chinese delegates had been hoping all along that much progress had been made, when the Japanese delegates abruptly insisted upon reverting to the Japanese loan plan, which had been but lightly touched upon before. Of the two Chinese plans, the first proposition was that of a cash payment. However, since the Japanese delegates had manifested great difficulty in accepting that plan, though not clearly stating so, the Chinese delegates had offered the plan of deferred payment. That had been offered because the Japanese delegates had expressed a desire to retain a certain interest in the railway. It would be hardly necessary to retrace all the ground covered, or to recount all the concessions made by the Chinese delegates step by step, in either of the two plans to meet the Japanese point of view. As late as the day before, after offering further concessions in respect of the two Chinese plans, the Chinese delegates had gone out of their way to try to meet the Japanese point of view by submitting a formula drafted solely from the desire to meet the Japanese wishes in the matter of incorporating, in a general way, the substance of existing railway loan agreements in the settlement of the railway question. Since yesterday the Japanese delegates had not only made no concessions on the stand taken by them on December 20, but the Chinese delegates felt that the present Japanese proposition was in reality a step backward. It carried the two delegations further apart. In view of Japan's inability to accept the formula which the Chinese delegates had offered reluctantly, the latter felt constrained to withdraw that formula. The Chinese delegates would therefore state again that the two plans offered were still open for the acceptance by Japan, namely, the plan of cash payment with a single deposit or the plan of deferred payment, in Chinese bankers' notes, extending over the period of 12 years with an option upon six months' notice to pay all remaining liabilities after three years, with the under-

taking by China to appoint a Japanese district engineer for the period the loan remained unpaid.

As regarded Baron Shidehara's observations concerning the utilization of the good offices of Mr. Balfour and Mr. Hughes, he was not sure whether he understood Baron Shidehara correctly. He trusted that it was not Baron Shidehara's idea to intimate that the good offices of Mr. Balfour and Mr. Hughes should not be utilized at any stage of their conversations. He understood that it was the baron's idea that the good offices need not be availed of at the present moment. So far as the Chinese delegates were concerned, they desired to make as rapid a progress as possible, and in fairness to themselves and as a token of appreciation toward those two gentlemen who had offered their good offices on behalf of their respective Governments the Chinese delegates had no hesitation in inviting their good offices and in asking them to extend to the two delegations such assistance as might be useful for the progress of these conversations. Unless, however, he had misunderstood Baron Shidehara's observations on that point he did not wish to propose to refer to the exact situation with reference to the acceptance upon both sides of the friendly offers made by both Mr. Hughes and Mr. Balfour.

Baron Shidehara said that he remembered that before the two delegations had adjourned on December 20 there had been much discussion on the railway loan agreement as well as on the two Chinese alternative plans. He remembered that the Chinese delegates had not found it possible to accept the Japanese proposition, but that, on the other hand, the Japanese delegates had not been able to accept either of the alternative plans proposed by the Chinese delegation. In that situation the Japanese delegates had had to refer the whole matter to the Tokyo Government and to wait upon their instructions. The conversations had been resumed three days before; as instructions had just then been received and as, it would be remembered, the instructions had opened a new phase in the situation. Formerly the railway loan plan had not been discussed as a plan of the Japanese Government, but after the receipt of instructions from Tokyo the Japanese delegates had submitted that plan as the plan of the Japanese Government. Naturally, as Japanese delegates, he and his colleagues had to act under instructions. With regard to the latter part of Dr. Koo's remarks, he was not quite able to follow the meaning of the observations made. Dr. Koo had said that Mr. Hughes and Mr. Balfour had offered good offices. Was it his meaning that these conversations had been opened through their good offices, or that after this difficult stage had been reached they had newly offered good offices?

Dr. Koo said that on that point the Chinese understanding was that the offer of Mr. Hughes and Mr. Balfour was a continuing one. The good offices would have been of very limited usefulness were they not of a continuing character. If there were any doubt at all, the best way to clear it would perhaps be to read from the record of the present conversations prepared by the Japanese secretaries passages upon what those statesmen had said at the opening session. The Japanese minutes on December 1 read as follows:

"He (Mr. Balfour) added that he had full confidence that the representatives of the two powers would come to an agreement on

the Shantung question, so important not only to the countries immediately concerned but to the whole world. He joined Mr. Hughes in saying that in the course of the conversations, if any circumstances should come to pass which called for friendly intervention on his part, it would be his great pleasure to offer his services. He was in that connection entirely at the disposal of Mr. Hughes and the representatives of Japan and China."

Mr. Hughes also had said that he—

"Was gratified to receive assurances from both delegations that the conversations would be continued in the most friendly manner. He was in full accord with Mr. Balfour in offering his services whenever needed."

He thought that on that point the records were so very clear. What he (Dr. Koo) had said was that if Baron Shidehara, while not opposing the idea of asking good offices, merely considered the present moment not opportune to resort to that means, the Chinese delegates would not press to refer the exact situation to Messrs. Hughes and Balfour. The very fact, however, that the four gentlemen had been assisting at every session as their representatives was a clear indication of the intentions of Mr. Balfour and Mr. Hughes.

Baron Shidehara said that it had not been quite clear to him whether there had been any new offer for good offices from those two statesmen, but now the situation had been made very clear.

Dr. Koo said that such new offer was not necessary so long as the original offer of good offices had been in the nature of a standing one.

Baron Shidehara said that with regard to the question of the good offices he thought that the Japanese delegates had made their position sufficiently clear. He had stated that the instructions received from Japan were quite explicit in directing them to maintain the plan of railway loan. In the present situation, therefore, the Japanese delegates were not in a position to request the good offices of Mr. Hughes and Mr. Balfour. He should like to ask whether the Chinese delegates did not think it worth while to discuss the terms of arrangement proposed by the Japanese delegates that day or even to refer them to Peking for consideration.

Dr. Koo said that he did not quite understand the purpose of Baron Shidehara's intimation for the Chinese delegates to refer to Peking. He hoped they had made it quite clear that the instructions in their hands did not permit the Chinese delegates to accept the plan of the loan agreement. He did not know if the recent visit of the Japanese minister at Peking, first to the Chinese minister of foreign affairs and then to the premier, had not given the Japanese delegation an impression which, from the point of view of the Chinese delegation was, perhaps, a misimpression. Since the Chinese delegates had made a statement concerning their authorization they had received further communications from Peking making it perfectly clear that the idea of the plan of the Japanese loan was not acceptable to the Chinese Government any more than to the delegation here. Without wishing unnecessarily to interest the Japanese delegates in Chinese politics, he might add that this recent instruction of the Chinese Government renewing their confirmation of the views of the Chinese delegates in the matter had been given after the formal cabinet meeting, which had been going on during the last

few days. He should like to know if, on one hand, the Japanese delegates rejected both of the Chinese alternative plans and insisted upon the Japanese loan plan; and, on the other hand, even though the difficulty was so apparent, they still did not see their way to utilize the good offices of Messrs. Hughes and Balfour, how, then, did the Japanese delegates propose to settle the question?

Baron Shidehara said that in the first place it was not his intention to request reference to Peking. He had simply put the question if the Chinese delegates did not think it worth while to refer to Peking. He now found that the two delegations had definite instructions from their respective Governments. The Japanese delegates could not accept the two Chinese alternative plans, and the Chinese delegates, in turn, could not accept the Japanese plan of loan agreement. That was the situation they were now confronted with, and he really did not know, just at present, how that difficulty could be adjusted. He added that he, nevertheless, did not abandon the hope that the two delegations might be able to come to some understanding on that difficult question. He would ask whether the Chinese delegates did not think it would be useful to meet again on Monday.

Dr. Koo said that he hoped that it was not Baron Shidehara's purpose unnecessarily to protract the conversations. He took it that the Japanese delegates were aware that the labors of the whole conference were approaching their end. He presumed that it was the Japanese desire, as well as the Chinese, that a settlement of the Shantung question should not be delayed. The Chinese delegates had tried to suggest various ways of meeting the difficulties confronting the two delegations, and they had made concessions, one after another, in both plans they had proposed. However, neither of them being found acceptable to the Japanese delegates, they had proposed to utilize the good offices of Messrs. Hughes and Balfour, because they might, perhaps, indicate some new point of view which had escaped both the Japanese and the Chinese delegation. The Chinese delegates had received no new instructions which were not in the nature of confirming the position they had taken from the very outset. In the circumstances it would perhaps be the most advisable course for both the delegations to take, if they were to avail themselves of the good offices which Messrs. Hughes and Balfour had offered to both delegations. If the Japanese delegation was still disinclined to refer the matter to Messrs. Hughes and Balfour, the Chinese delegates might perhaps modify the course somewhat by inviting those two statesmen to join the two delegations in the conversations which really should not take place later than to-morrow.

Dr. Sze said that it would be recalled that yesterday he had proposed that the meeting should be held, if not in the morning to-day, early in the afternoon, so that they might have time enough to utilize the good offices of Messrs. Hughes and Balfour if they consented to join them. In view of what Baron Shidehara had just said, he would suggest that the meeting should be held to-morrow.

Baron Shidehara said that it was certainly not his intention to protract the conversations. He was sure the Chinese delegates would realize that the Japanese delegates had been doing their best to expedite settlement of the question, but the fact was that the Chinese delegates had definite instructions and the Japanese had instructions

equally definite, and neither of them could proceed any further. As he had stated, therefore, they were not in a position at present to request the good offices of the two statesmen. He thought, nevertheless, it might be useful for the two delegations to meet next Monday.

Dr. Sze said that, clearly, the Japanese delegates would not avail themselves of the good offices of Messrs. Hughes and Balfour.

Baron Shidehara said that, as he had stated, the instructions from the Tokio Government were explicit and the Japanese delegates were, in the present situation, not in a position to ask for the good offices of Messrs. Balfour and Hughes.

Dr. Sze reminded Baron Shidehara that he (Baron Shidehara) had not been here at the first few meetings. The minutes for the opening session had been read to the baron. The two statesmen had not said that the offer of the good offices was not a continuing one.

Dr. Koo said that he understood that the Japanese instructions precluded the acceptance of the Chinese proposals, while the Chinese instructions made the acceptance of the Japanese proposal equally impossible. Therefore, neither of the delegations could proceed any further, there arising a situation amounting to an impasse. It was for difficulties of such kind that the good offices had been offered, and they could now effectively be utilized, if ever. He was at a loss to know how it could be hoped to settle the question if the Japanese delegates were not disposed on the one hand to make further concessions, after the Chinese delegates had made repeated concessions, and on the other hand they were not disposed at the present juncture to utilize the good offices of Great Britain and the United States. When he said that the Japanese delegates were not disposed to make any further concession he said so advisedly. Their present position was not conciliatory. They had gone back to the position which had existed on December 20. The Chinese had come much further from the position taken on that date. Therefore, if the Japanese delegates could not agree to request the good offices of Messrs. Balfour and Hughes, he should like to ask whether, if the Chinese delegates, on their part, were to invite those two statesmen to come, the Japanese delegates would have any objection to that course.

Baron Shidehara thought that he had defined the position of the Japanese delegates with sufficient clearness. They were at that moment not in a position to request the good offices of Messrs. Balfour and Hughes, and without request from both parties he wondered whether it would be practicable for the two statesmen to join the Japanese and Chinese delegations.

Dr. Koo said that, nevertheless, if the Japanese delegates had no objection to requesting the presence of those two statesmen, they might be induced to join the conversations.

Baron Shidehara said that he had no intention of objecting to the coming in of the two statesmen; only he could not imagine how they would come in without the request of the two parties concerned.

Dr. Koo said that he need hardly add that those two gentlemen were, according to his views, at liberty to come in at any time. The four gentlemen actually present here were their personal representatives, whom they sent because they wanted to see the question settled speedily and in a satisfactory manner. If they wished to come of

their own accord, they could do so at any time, and the two delegations knew that Mr. Balfour had said that he placed great importance in the settlement of the question, not only in the interests of the parties immediately concerned but in the interests of the whole world. He would like to know whether, if the Chinese delegates invited the two statesmen to join, the Japanese delegates would persist in their objection.

Baron Shidehara said that he had no intention of placing obstacles in the way of the Chinese delegates extending an invitation to the two gentlemen. But in the nature of good offices, he felt that it might be awkward for them to come in without the express request from both parties. He did not see how that could be done. He hoped that the Chinese delegates would not consider him too insistent if he said that the two delegations might again meet on next Monday.

Dr. Sze said that between then and Monday there were two days. No time should be lost after as many as 14 valuable days had been lost. The Japanese delegates no longer objected to the coming in of Mr. Hughes and Mr. Balfour to-morrow. Was that the present position of the Japanese delegates?

Baron Shidehara said that the Japanese delegates had certainly no objection to their presence.

Mr. MacMurray said that he would suggest that before Mr. Balfour and Mr. Hughes should be asked to attend or formally participate in the conversations, the two sides should take occasion informally to discuss the matter with those two gentlemen.

Dr. Sze said that the American and British observers had been taking full notes of the proceedings, and Mr. Hughes and Mr. Balfour must have been fully informed of the progress of the discussions.

Mr. MacMurray said that they, of course, had been kept informed on the conversations, but that after all observers were there informally.

Baron Shidehara said that the Japanese delegates were afraid that it would be embarrassing to the British and American statesmen. They had simply said that they on their part had no objection, but without express invitation from both, the two statesmen might be placed in an awkward position.

Dr. Sze said that the Chinese desire was to attain a speedy and fair settlement of the whole question. If the Japanese delegates did not see their way to accept the proposition to resort to the good offices of Mr. Hughes and Mr. Balfour, that was another question. But the Chinese idea was to ask for their good offices simply in the interest of a speedy solution. Nothing was further from the intention of the Chinese delegates than to embarrass these statesmen. He did not see how such a request could embarrass anybody.

Baron Shidehara said that that would be a Chinese request, but not the request of the two delegations.

Dr. Sze asked whether the Japanese delegates objected to taking such a course.

Baron Shidehara replied that they had no objection.

Dr. Sze asked whether Baron Shidehara was unwilling.

Baron Shidehara replied that the Japanese delegates were not in a position to solicit the good offices.

Dr. Sze said that the Japanese delegates had accepted in the beginning the general offer of good offices of the two statesmen.

Baron Shidehara said that that did not mean that the Japanese delegation would be obliged to accept the offer at any time.

Dr. Sze, interrupting, said that that was an interesting remark.

Baron Shidehara, continuing, said that he had not understood from the beginning that the two gentlemen would come in any time without request.

Dr. Sze said that he did not want to say to Mr. Balfour and Mr. Hughes that the Japanese delegates requested their good offices.

Baron Shidehara said that in the nature of the good offices they should be exercised at the request of the two parties. Otherwise, it would be an intervention.

Dr. Sze said that was not the sense in which their participation was to be asked. It was not a case of intervention, but they would come in at the Chinese request.

Baron Shidehara said that in the present situation the Japanese delegation was not going to make the request.

Mr. Hanihara said that he would try to explain the situation. The Chinese delegates, on their part, had express instructions and could not consider the Japanese proposal, while the Japanese delegates, on their part, had equally express instructions and could not go any further than the railway loan plan. If, in that situation, they were to ask the good offices of Mr. Hughes and Mr. Balfour, he should wonder what useful purpose would be served by adopting such a course, except simply to embarrass the two gentlemen, inasmuch as neither side was prepared to go any farther.

Dr. Sze said that although there had been some misrepresentations, yet, as Dr. Koo had already explained, the instructions of the Chinese Government had only confirmed the position the delegation had been taking. On the other hand, Mr. Balfour and Mr. Hughes had offered their good offices in unmistakable terms. By any stretch of the imagination an invitation to join could not embarrass the two gentlemen.

Sir John Jordan suggested that he and his colleagues should report to their respective chiefs, upon their own responsibility, the situation which had developed to-day, and let them decide for themselves as to their attitude.

Dr. Sze said that the position of the Chinese delegation was that, in justice to Mr. Hughes and Mr. Balfour, they could not go behind these statesmen, and, in deference to Sir John's opinion, they would accept his suggestion. He wondered whether Sir John's suggestion was in the nature of a supplement to that of Mr. MacMurray.

Sir John Jordan said that he was speaking only on behalf of the British observers.

Mr. MacMurray said that the two suggestions had no relation with each other.

Dr. Sze asked whether the suggestion of Mr. MacMurray still stood.

Mr. MacMurray said that his suggestion did not seem to have received approval; neither did he insist upon it.

Sir John Jordan said that what he wanted to do was simply to report what had occurred to-day.

Dr. Sze said that the Chinese position was very clear. They were going to ask for the British and American advices as a last resort.

Sir John Jordan said that he and his colleagues were merely intending to acquit themselves of their responsibility, just to take the opportunity to report on the present situation of the conversations to their chiefs.

Dr. Sze said that to avoid the possibility of misunderstanding both delegations might perhaps summarize their respective positions before they adjourned.

Dr. Koo said that the position of the conversations appeared to stand as follows: Both of the Chinese alternative plans were still available; on one hand, the Chinese delegates were willing to effect the payment by a single deposit as the Japanese delegates had indicated preference therefor at a previous meeting; on the other hand, taking into consideration the Japanese desire to retain interest in the railway, the Chinese delegates had offered a method of deferred payment to be effected in treasury notes or in bankers' notes, together with the undertaking to select and employ a Japanese district engineer for the period in which the deferred payment would not be completed. The Chinese delegates understood that the Japanese delegates could not accept either of the plans proposed and that they insisted upon the plan of the Japanese loan agreement for the settlement of the railway question.

In view of the fact that the reasons why China could not accept the Japanese plan of loan agreement, in justice to herself and in the interest of good understanding and future relations between their two countries, had been given on more than one occasion, it would not be necessary for him now to recapitulate them.

In view of the difficulties which confronted the two delegations, which really could not be expressed by any term except "impasse," the Chinese delegates had suggested referring the point of difference to Mr. Hughes and Mr. Balfour. The Chinese delegates understood that the Japanese delegates were not able to accept that suggestion either. In view of that sentiment of the Japanese delegates, the Chinese delegates had against suggested inviting Mr. Hughes and Mr. Balfour to join in the conversations, in the hope that they might throw a new light upon the question which had escaped both the Chinese and Japanese delegations. That suggestion, however, was again found unacceptable to the Japanese delegates.

In view of the situation, it had been inquired in what manner the Japanese delegates proposed to settle the question. The Japanese delegates had suggested another meeting on Monday. Thereupon the Chinese delegates had pointed out that as the labors of the conference were drawing close to their completion, it was desirable that both delegations should not leave this question unsettled.

The Chinese delegates felt they were at a loss to understand what was the precise position of the Japanese delegation. Yesterday the Chinese delegation had offered new concessions and then they had suggested the utilization of the good offices of Mr. Hughes and Mr. Balfour and the Japanese delegation had desired to consider the matter overnight, to which glad consent had been given. To-day, however, the two delegations stood almost exactly where they stood on December 20. If there were any difference at all in the situation, it was that the Japanese delegation had reverted to the position which they had taken before that date.

It was hardly necessary for the Chinese delegation to add that the Japanese view of the offer of the good offices of Mr. Hughes and Mr. Balfour was not shared by the Chinese delegates. The real nature of their offer was indicated in the minutes.

Under all these circumstances, the Chinese delegates desired to have their position clearly recorded in the minutes of this meeting; that being done, they had no objection to adjourn the meeting.

Baron Shidehara thought that he had defined the Japanese position sufficiently clearly at the beginning of the meeting. He had submitted a definite proposition regarding the terms of the loan agreement, which it was not deemed necessary to repeat. But he wished to point out just a point or two with reference to what Dr. Koo had just said. In the first place, Dr. Koo had stated that the Japanese delegates had reverted to the proposal which they had once abandoned. He might not have correctly understood him, but he had gathered from Dr. Koo's remarks that it was considered the Japanese delegates were now proposing what they had once abandoned. That was not exactly the case. In no stage of the negotiations had the Japanese delegates abandoned the plan of railway loan agreement. They had discussed the Chinese alternative plans, but at the same time they had never given up the plan of the railway loan.

In the second place, Dr. Koo had said that since the resumption of these conversations the Chinese delegates had made new concessions. As he had explained yesterday, to his mind, the new propositions made by the Chinese delegates could not be taken in any sense as new concessions on China's part.

As regarded the question of the good offices, he had said that the instructions which the Japanese delegates had in regard to the plan of railway loan were so definite and explicit that in the present situation the Japanese delegates could not go any further, and that therefore their position was that they did not feel themselves at liberty to request the good offices of the two gentlemen. The Japanese delegates could not very well ignore express instructions from home. That was the position in which the Japanese delegates were placed. He had said, however, that he had not abandoned the hope that some way might yet be found for a satisfactory solution, and he had proposed, and still proposed, that the meeting should be adjourned until Monday. With regard to the proposed presence of Mr. Hughes and Mr. Balfour at the meeting, he did not desire to convey the impression as if he had any objection to it, but he had simply expressed his doubt whether they would be disposed to join the two delegations without an express request from both sides. These statesmen had been very considerate in their attitude and had scrupulously tried to avoid any appearance of interference in the matter, and he had thought it might embarrass them if only one party asked their presence while the other party did not. But he would repeat once more that it was not his intention to object to their coming in.

Baron Shidehara, after some pause, asked whether it was the intention of the Chinese delegates to take an adjournment sine die or to meet again on Monday.

Dr. Koo said that he did not exactly understand the situation. He wondered how the Japanese delegates proposed to settle the whole question if they met Monday.

Baron Shidehara said that the conversations had reached an impasse. Time was needed to get out of this difficulty.

Dr. Sze inquired what the Japanese delegates wanted.

Baron Shidehara said that to-day the Japanese delegates had given more concrete proposals than had been made before. He thought that neither of the delegations wanted to break off the conversations, and that it might be useful to meet again on Monday to resume discussions.

Dr. Sze said that, at the risk of repetition, he would say that if the Japanese delegates had expected that the Chinese delegates might accept the loan plan by Monday they would be disappointed. He wondered if it was that the Japanese delegates wanted time in order to consider the two Chinese proposals.

Baron Shidehara said that he simply wanted time to consider what could be done, and that he could not commit himself to anything.

Dr. Sze asked whether, if the Japanese delegates found that they could not accept either of the two Chinese proposals, they would then agree to solicit the good offices of Messrs. Hughes and Balfour.

Baron Shidehara said that he would not say that. The Japanese might have new proposals to make. He did not know.

Dr. Sze said that if on Monday they were to remain in the same position, probably the Japanese delegates might desire another adjournment of two days.

Baron Shidehara hoped that the negotiators might be wiser by Monday.

Mr. Hanihara asked: "How about to-day's communiqué."

Dr. Koo stated that he wished to say that the Chinese delegates felt that the Japanese delegates had not been able to move a single step forward to meet the Chinese delegates. The Chinese delegates had been making concessions, but their ingenuity in finding ways and means had been exhausted. The Chinese delegates were really at a loss to know whether the setting of a definite date for the next meeting would be a wise course. The Chinese delegates would like, in the meantime, to acquaint Mr. Hughes and Mr. Balfour with the situation that had been reached. They felt that they owed it to the two statesmen to inform them of the situation and to consult them as to the date for the next meeting before the Chinese delegates gave a definite reply.

Mr. Hanihara asked whether they desired to consult Mr. Hughes and Mr. Balfour.

Dr. Koo said that they would like to report the whole matter to them, and then the Chinese delegates would let the Japanese delegates know the Chinese intention as to the next meeting.

Then the form of the press communiqué was discussed.

Baron Shidehara desired not to have a public announcement conveying the idea that a definite break-off had occurred. It was essential that the public sentiment should not be aroused, lest the solution of this difficult question might be made even more difficult.

Dr. Sze remarked that it would be necessary to give out a full statement of what had transpired, not to arouse suspicions in the popular mind, but to quiet them down.

Dr. Koo suggested the mention in the communiqué of the proposal to refer the matter to Mr. Hughes and Mr. Balfour.

Baron Shidehara objected to taking such a course on the ground that it might cause embarrassment on the part of those two gentlemen.

Dr. Sze did not agree. He thought that there would be no cause for embarrassment on the part of Mr. Hughes and Mr. Balfour. He would, however, not object to omitting the mention if that was going to cause embarrassment to the Japanese delegates.

The communiqué was agreed upon in the annexed form (Annex I), and the meeting adjourned sine die, pending further developments, at 6.30 p. m.

WASHINGTON, D. C., *January 6, 1922.*

SJC-20.]

ANNEX I.

JANUARY 6, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twentieth meeting of the Chinese and Japanese delegates was held at 3 o'clock in the afternoon in the governing board room of the Pan American Union Building. Discussions on the Shantung Railway question were continued.

The Japanese delegates proposed a railway loan agreement plan for the settlement of this question on the basis of the terms of ordinary railway loan agreements entered into by China with various foreign capitalists during recent years; namely, on the following general lines:

1. The term of the loan shall be fixed at 15 years, while China shall retain an option of redeeming the whole outstanding liabilities upon six months' notice after five years from the date of the agreement.

2. A Japanese traffic manager and a chief accountant shall be engaged in the service of the Shantung Railway.

3. The details of the financial arrangement shall be worked out at Peking between the representatives of the two parties to the loan.

This plan was not found acceptable to the Chinese delegation.

The Chinese delegates, on their part, proposed the following two alternative plans:

1. China to make a cash payment for the railway and its appurtenant properties with a single deposit in a bank of a third power at a specified date either before the transfer of the properties or when such transfer is effected.

2. China to make a deferred payment either in treasury notes or notes of the Chinese Bankers' Union, secured upon the revenue of the railway, extending over a period of 12 years, with an option on the part of China at any time after three years upon giving six months' notice to pay all the outstanding liabilities. The first installment is to be paid on the day on which the transfer of the properties is completed.

China to select and employ in the service of the Tsingtao-Tsinanfu Railway a district engineer of Japanese nationality.

Neither of these plans was found acceptable to the Japanese delegates in its present form.

The meeting adjourned at 5.30 p. m. sine die, pending further developments.

TWENTY-FIRST MEETING.

The twenty-first meeting held in governing board room, the Pan American Union Building, Washington, D. C., at 11 o'clock in the morning of Wednesday, January 11, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries, Mr. Hawking Yen, Mr. T. C. Yen, Mr. T. Y. Tsai, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries, Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

SALT QUESTION.

Baron Shidehara asked whether he was to understand that the two delegations should now proceed to other matters than the railway question.

Dr. Sze replied that, in order to utilize time, that course should be taken. He understood that the formula suggested in regard to the railway had been referred to the home Governments for instruction. He remembered that, at the meeting of December 10, the question of salt field had been taken up and Mr. Hanihara had stated that the matter would be referred home for instruction. He wondered whether any reply had been received. If so, he would like to be informed.

Mr. Hanihara stated that about the salt question he remembered that the last time the question was discussed the Chinese delegates had proposed that they would make fair compensation to the Japanese capitalists and give assurance as to the exportation of salt to Japan. The Japanese proposition had been that China should recognize the vested rights of the Japanese nationals and to allow them to continue in their enterprise. The Japanese delegates had received instructions from home about that question some time ago. However, they being substantially the same as the original instructions, the Japanese delegates were still communicating with Tokio, still hoping that some way might be found. The Japanese delegates, therefore, were not prepared to discuss that question that day. He suggested that some other matters should be taken up.

Dr. Sze desired, without entering into the discussion of the question, to be informed as to the amount of salt Japan might require to be

supplied by China, if the Japanese delegates were in a position to give that information.

Mr. Hanihara said that the Japanese delegates were unable as yet to furnish the information desired. They had not received a reply from Japan as to the exact amount; but, in any case, the Japanese Government would not request anything unreasonable, no larger amount than would actually be needed.

Dr. Sze said that the reason why he asked that question was this: According to Japanese statistics, it appeared that the amount of salt annually required by Japan was 15,000,000 piculs, of which 8,000,000 piculs were produced in Japan. Therefore she had to import 7,000,000 piculs from outside. His information was that in Tsingtao there was produced only 5,000,000 piculs of salt. If his information was correct, the Chinese Government might try to find out some means by which to supply Japan with the remaining 2,000,000 piculs of salt out of the produce of other localities than Tsingtao fields. The Government, however, could not consider the matter unless they had an exact knowledge as to the amount of salt needed by Japan.

Mr. Hanihara inquired where Dr. Sze had obtained those figures.

Dr. Sze replied that they were found in Japanese statistics prepared in regard to Tsingtao. He desired to have exact information, because he could then inquire of the Chinese salt administration whether they could supply to Japan salt produced in other localities. If the figures were given, that would facilitate an answer on the part of the Chinese Government.

Mr. Hanihara said that what the Japanese original instruction had stated was that Japan would desire to be allowed to import salt from Kiaochow, but did not wish to import any salt actually under the monopoly system.

Dr. Sze said that he desired to consider the question of supply of salt to Japan as one of business. That would be a business proposition to one of China's industries.

Baron Shidehara wondered whether, if the figures were correct, it was Dr. Sze's idea that China would supply 7,000,000 piculs.

Dr. Sze replied that he could not say anything definitely; but the correct figures were needed by Peking. The Chinese Government did not want to commit themselves to the amount of salt to be exported to Japan and later find themselves unable to fulfill their engagement, placing Japan in a difficult position. He thought the figures to which he had been referring were prepared two years before. He would like to know whether they were still correct.

Baron Shidehara remarked that the figures given by Dr. Sze were helpful information.

Dr. Sze said if definite figures could be obtained, they would be a great help to the Chinese salt administration in giving consideration to the matter and in making provisions for the disposal of the surplus salt.

Baron Shidehara said that he had no technical knowledge on this question, but the shortage of salt in Japan would differ each year according to the climatic conditions. A report appearing in a Japanese newspaper read as follows:

"A decrease in the salt production in Japan is expected for the fiscal year 1921-22, due to climatic conditions. Over against 9,500,000 piculs of the commodity that was raised in the preceding year, we

shall have 8,500,000 piculs this year, with the result that Japan is faced with a decrease of 1,000,000 piculs for the current year. The demand for salt in Japan, on the other hand, is 14,000,000 piculs a year. So the shortage this year will be as much as 5,500,000 piculs. This shortage has to be met by the importation of the Tsingtao and the Kwantung salt."

Dr. Sze stated that the climatic conditions would have a great influence upon the salt industry, especially those during the rainy season in summer.

Baron Shidehara said that the whole matter would after all be a commercial transaction. If China had surplus salt for exportation, it would be of advantage to both Japan and China.

Dr. Sze said that it seemed to him the Tsingtao figures indicated more salt was required by Japan than what could be supplied from Tsingtao, but the two delegations might confine their discussions to Tsingtao salt.

Baron Shidehara said that that had always been the Japanese position.

WITHDRAWAL OF TROOPS.

Dr. Sze said that as to the taking up of other questions, he might be permitted to suggest that they should first discuss questions easier of solution, so that they might be able to announce at the end of the meeting that satisfactory progress had been made. He wondered whether the Japanese delegates were ready to discuss the question of the withdrawal of troops stationed along the Kiaochow-Tsinan-fu Railway.

Baron Shidehara said that the Japanese delegates were quite ready to take up that question.

Dr. Sze said that, first of all, he wanted to ask one thing. He was given to understand that there had been some Japanese marines stationed in Shantung, but that they were withdrawn on April 1 last year. He wondered whether there now remained in Shantung only ordinary troops.

Baron Shidehara replied that that was the case. He would now suggest a plan of settlement somewhat on the following lines:

"The Japanese troops stationed along the Tsingtao-Tsinan-fu Railway will be withdrawn as soon as possible upon handing over to the Chinese police forces the protection of the railway. In the section of the railway in which the Chinese police forces shall have taken over such protection, the Chinese authorities shall be responsible for the full and efficient protection of the railway as well as of the persons and property of foreign residents. The taking over by the Chinese police forces of the protection of the entire line of the railway and the complete withdrawal of the Japanese troops stationed along the railway shall be effected within some definite period to be arranged, and the Japanese garrison at Tsingtao shall be withdrawn in the same manner."

Dr. Sze inquired whether Baron Shidehara had any suggestion as to the period.

Baron Shidehara asked whether the Chinese police forces were ready at any moment to take over the protection.

Dr. Sze said that they could do so. China had sufficient police for other lines. Moreover, troops might be utilized as well.

Baron Shidehara said that he presumed that two or three thousand men might be required.

Dr. Sze said that the figures he had showed that there were 2,300 Japanese soldiers, but he thought Mr. Hanihara had said 1,800.

Baron Shidehara said that his rough recollection was that there were something like 2,500, including the Tsingtao garrison. The troops stationed along the railway numbered approximately 1,800. The question really depended upon how soon China could take over the protection of the railway.

Dr. Sze thought that the matter would be facilitated if a certain date were mentioned; if it was set as so many days or months from the signing of the agreement. The Chinese police and troops might be sent in advance of that date to take over the duties of the protection. If a definite date was mentioned, they would be ready on that day on the spot.

Baron Shidehara said that there should be no interregnum. The necessity to make preparations for the shipping facilities to take back those soldiers to Japan should also be taken into consideration.

Dr. Sze inquired what date Baron Shidehara proposed to suggest, what date after the signing of the agreement.

Baron Shidehara stated that nine months might be tentatively decided upon, it being understood that China was ready to take over the protection of the railway within that period. The withdrawal of the Japanese troops could be effected section by section, and the last installment would be withdrawn within that period. The first installment could be withdrawn much earlier.

Dr. Sze said that, in view of the small number of Japanese troops, nine months appeared to be too long. He thought that the Japanese Government could furnish shipping facilities at any time.

Baron Shidehara said that the important point was that as soon as China could organize and send the police to take over the protection the Japanese troops would be withdrawn. It would be very difficult for the Japanese delegates to see whether a shorter period would be quite enough. He wondered what date Dr. Sze would suggest.

Dr. Sze said in view of the small number of the Japanese troops and the short distance to Japan he would suggest 30 days from the signing of the agreement.

Baron Shidehara said it would be very difficult that the withdrawal should be effected within 30 days from the signing of the agreement. He would make the coming into force of the agreement as the starting point.

Dr. Sze said that he would now propose 30 days from the date of the coming into force of the agreement.

Baron Shidehara said that he was not sure whether that period was sufficient, whether China could definitely undertake to take over the protection of the railway in 30 days.

Dr. Sze said that the assigning of the police would be an easy matter. His experience at Harbin, while in the customs service,

would show that if a police force to safeguard the railway were taken from the ordinary local police force, it would be a question of only a few days.

Baron Shidehara said that as a matter of fact he had received no suggestions from home. He had, however, suggested nine months, tentatively.

Dr. Sze said that his idea was that China had experienced men in other railways. It would take a long time if they were to train men newly, but since there were men well trained for the special duties of efficiently guarding railways, 30 days after the coming into force of the agreement would be sufficient.

Mr. Hanihara inquired whether the Chinese delegates meant that the withdrawal should be completed with 30 days.

Dr. Sze replied in the affirmative.

Mr. Hanihara said that he did not know whether the period was sufficient. There were minor matters to be arranged in relation to the withdrawal.

Baron Shidehara said that it was simply a question of practicability. The Japanese delegates had no intention of prolonging the stay of troops. He was not a military man, but had just thought that nine months would be a reasonable limit.

Dr. Sze said that nine months were 275 days. If Japan had 2,500 soldiers it would mean that eight men would be withdrawn a day. He had proposed 30 days, which would mean 80 men a day. He did not think that 30 days were too short.

Baron Shidehara said that he did not propose nine months' period in the sense that the Japanese troops would be likely to stay so many months longer. The period had been proposed as one within which the withdrawal should actually be effected. If it could be done earlier so much the better for Japan.

Then Baron Shidehara proposed a formula which was, in rough draft, as follows:

"Upon the coming into force of the present agreement the Chinese police force will, as soon as possible, be detailed to take over the protection of the railway. The Japanese troops now stationed along the railway will immediately thereupon be withdrawn from such sections of the railway as the Chinese police force shall have been so detailed."

China would not be able to send her men in one day. The Japanese troops would be withdrawn as soon as China would send her police force to take over the duties of guarding the railway. If that arrangement could be made it would not be necessary to fix any definite date for the withdrawal. If the withdrawal from a certain section was arranged, for, say February first, China would send her men to that section on that date. Then the Japanese troops would immediately be withdrawn. He desired that in any case the Japanese Government should be informed of the exact date in advance of the dispatch of police by the Chinese Government.

Dr. Sze pointed out that in Baron Shidehara's formula the Japanese garrison in Tsingtao were not included. He wanted to know what kind of provisions were going to be made for the Tsingtao troops.

Baron Shidehara said that the date of the withdrawal of the Tsingtao garrison depended upon the date of the transfer of the leasehold to China. As he understood, there had been no arrangement made yet in regard to the transfer of the leasehold. If the date for that transfer was fixed Japan could propose withdrawing the said garrison in, say, one month from that date.

Dr. Sze wondered whether, when it was said that the troops were to be withdrawn from along the railway, it was meant that they should be withdrawn to Japan. He would ask Dr. Koo to present a formula which appeared to him to be very comprehensive and clear on those points:

Dr. Koo said that he did not know if his formula was any improvement upon the Japanese formula. This question of the withdrawal of the troops was very important for both Japan and China, and any agreement concerning it ought to be as clear and definite as possible. The formula read as follows:

"The Japanese Government engages to withdraw to Japan within ----- days from the coming into force of this agreement all the Japanese troops, police of all kinds, and other Japanese forces in the leased territory of Kiaochow, along the Tsingtao-Tsinanfu Railway and its branches, and in other parts of Shantung Province.

"The Chinese Government will provide the necessary Chinese forces to take over, upon the withdrawal of the said Japanese forces, the protection of the said railway and its branches."

If it was desired that the said withdrawal should be made by sections he would suggest adding the following sentence to the above formula:

"It is agreed that the said withdrawal shall be effected in the following proportions and on the following dates: -----."

Continuing, Dr. Koo said that the idea of the draft was in line with the desire repeatedly declared by the Japanese Government to remove all troops and other Japanese forces from the Shantung Province as soon as possible. He thought that the arrangement proposed by him in the above formula would be easy of execution for both sides.

Baron Shidehara said that his own formula was framed with a view to seeing that there was no interregnum. Dr. Koo's formula provided for the sending of Chinese police immediately upon the withdrawal of the Japanese troops, which arrangement he was afraid might necessarily leave a certain brief period of time during which the railway properties might be without protection.

Dr. Koo said that the Chinese forces would be on the spot immediately on the withdrawal of the Japanese troops. It was not desirable that the two forces should find themselves together on the same spot for any length of time, for it was possible that untoward incidents might result from their contact with each other. His plan amounted to this: That the dates should be fixed here, and that the hours should be left to local arrangement. For instance, it might be so arranged that on a certain date the Japanese troops should withdraw from a certain section of the railway, at, say, 11 o'clock in the morning, and the Chinese troops should be there an hour later. That will serve to avoid possible mishaps.

Baron Shidehara said that he could agree that dates should be fixed in advance. He wondered what would be the Chinese suggestion in that respect. He added that, of course, in withdrawing troops from the railway it could not be expected that the necessary steamer accommodations would be available for the transportation of the troops to Japan at a stated time. In other words, it would naturally be necessary that the troops should remain in Tsingtao for several days before embarkation.

Dr. Koo said that he did not think it impossible for the Japanese troops to be transported directly to Japan, for the Japanese Government was generally very efficient in carrying out its plans in such matters. It was merely a question of preparation beforehand. Japan could make preparations sufficiently in advance so that there might be no delay in Tsingtao. He really wondered if there was any particular difficulty about taking for the date of the withdrawal the date of the coming into effect of the agreement on the Shantung. What the Japanese Government was solicitous about was perhaps the protection of the railway properties. So long as Chinese forces were sent promptly there would seem to be no particular reason to delay the withdrawal of the Japanese troops.

Baron Shidehara said that it was certainly so. Here he asked Dr. Koo to read his formula once more, which Dr. Koo did.

Baron Shidehara said that the practical plan was to withdraw the troops by sections, and that available transport facilities should also be taken into consideration. He had no knowledge about those details, and it seemed to him impracticable just at that moment to fix a definite date. He would suggest an arrangement on the following lines:

"Upon the coming into force of the present agreement the Chinese Government will, as soon as possible, send a sufficient number of police force to take over the protection of the Tsingtao-Tsinanfu Railway. The Japanese troops now stationed along the railway will immediately thereupon be withdrawn from such sections of the railway as the Chinese police force shall have been so sent.

"It is understood that in the sections of the railway in which the Chinese police force shall have taken over such protection the Chinese authorities shall be responsible for the full and efficient protection of the railway as well as of the persons and property of foreign residents.

"The dates of the withdrawal of such troops shall be arranged in advance between the two Governments, but in no case shall the complete withdrawal extend for any period longer than ----- months from the date of the coming into force of the present agreement."

Dr. Sze said that the value of any agreement was in its definiteness. That was especially so in the present case of the withdrawal of the Japanese troops. A definite date was of the utmost importance. Without it the proposed agreement on this point would be of little value. It would perhaps be recalled by the Japanese delegates that when the question of the withdrawal of foreign post offices in China had been taken up and Japan had been referring home for a definite date of the said withdrawal, there had been much misgiving caused thereby in China. When the Chinese delegates insisted

upon a definite date in the present case it was not so much because they entertained any doubt as because of their desire to ease the public mind in China.

Baron Shidehara said that he could appreciate the spirit of the Chinese plan. The idea of the Japanese formula was to fix the last date by which the withdrawal should be completed while providing for withdrawal in sections.

Dr. Sze said that the Japanese plan seemed to contain no reference to the withdrawal from Tsingtao.

Baron Shidehara asked if importance was placed on the point of the troops being withdrawn to Japan direct.

Dr. Sze said that what he meant was not only that but the withdrawal of the Tsingtao garrison.

Baron Shidehara said that in that respect he would propose the following formula:

"The Japanese garrison at Tsingtao shall be withdrawn within 30 days from the date on which the transfer of the administration of the leased territory is completed."

Dr. Koo signified his desire to further clarify the matter of the railway guards. He understood that there were two branches of the Japanese railway forces. One was the troops stationed along the railway and its branches, and the other was those forces found outside the railway zone.

Baron Shidehara said that they were all covered in the first formula proposed by him.

Dr. Koo said that in the Japanese note of September 7, 1921, it was proposed that the Japanese troops stationed along the Kiaochow-Tsinanfu Railway should be withdrawn upon organization by China of a police force to assume protection of the railway. That was to say, that the Japanese troops outside the leased territory of Kiaochow should be withdrawn independently of an agreement on the Shantung question. That point had been mentioned also in the Chinese note of October 19, 1921. When Japan had first proposed negotiations upon Shantung to the Chinese Government in her memorandum of January 19, 1920, the question of the railway guards had been mentioned, stating that the troops would be withdrawn even before an agreement had been reached on the question of Shantung. In point of fact, in the memorandum of January 19, 1920, as it had been communicated by the Japanese legation at Peking, had occurred a passage to the effect that under existing circumstances the Japanese Government had no other way than to retain the troops along the railway for the time being for the purpose of protecting the railway. The Japanese legation on February 4, 1920, followed with a communication that there had been an error in deciphering the memorandum of January 19, which should have read to the effect that, although for the purpose of the protection of the railway the Japanese forces had to be retained for the time being, the Japanese Government would be ready even before an agreement upon Shantung had been reached, to proceed to the withdrawal of the troops as soon as China's railway police was ready to take over the protection of the railway.

That was why he (Dr. Koo) said "all troops, etc." in his formula. The idea was to show that not only the troops along the Shantung

Railway but those in other parts of Shantung should be withdrawn, and that said withdrawal should proceed independently of the agreement. There was no doubt that an announcement of that character would dissipate misgivings in China. He thought that in drafting an agreement on the subject it ought to be made quite clear that those troops should be withdrawn independently of the coming into force of the general agreement on Shantung.

Baron Shidehara said that in his draft he had put in at the beginning the phrase "upon the coming into force of the present agreement, etc.," because he thought it would be impossible for China to send the necessary police forces to-day or to-morrow, nor for Japan to withdraw her troops in a few days. He was, however, willing to strike that phrase out and agree to withdraw the troops immediately upon China sending the necessary forces. Japan had always drawn a distinction between troops in the leased territory and those outside of it. The formula proposed by him was intended for the Japanese troops within such a territory. He thought that the two delegations had agreed on broad principles of the withdrawal of the troops, only the question of the exact time of such withdrawal being left undecided.

Dr. Sze said that, as had been pointed out before, Baron Shidehara's formula was a little too indefinite as to date, which was all important. There were also other points on which the Chinese delegation desired to make some observations. He would suggest they adjourn until that afternoon and then try to conclude definite arrangements so that the decision might be given for the newspapers for the next day.

Baron Shidehara asked if his formula was considered not definite enough because days and months were not expressly mentioned.

Dr. Sze said that the Chinese delegation wished also to make observations on other points. He wondered if the Japanese delegation could see their way to take Dr. Koo's draft as a basis. He and his colleagues would agree to make some modifications in that formula in order to meet the Japanese viewpoint.

Baron Shidehara said that in Dr. Koo's formula mention was made of Japanese police forces. That was entirely another question.

Dr. Sze wondered if there were not Japanese police forces along the railway.

Baron Shidehara said he understood there were no railway police. Of course, there were gendarmes, but they were part of the troops. There might also be certain police forces attached to the Japanese consulate at Tsinanfu. The question of that kind of a police force was now pending in the Far Eastern Committee.

Dr. Sze said that the meaning of Dr. Koo's draft in that regard was that the Japanese troops should not be replaced by some other force under some other name.

Baron Shidehara said there was no Japanese force for the protection of the railway.

Dr. Koo asked if there were not military constabulary.

Baron Shidehara said that they were part of the military forces.

Mr. Hanihara said that he could not attend the meeting that afternoon. He suggested that if his Chinese friends could agree to the formula presented by Baron Shidehara it could be given to the news-

papers for the next day. It would be, he thought, good news for the public. The difference was only a question of days and months, and not years.

Dr. Koo said that there was something more to it. That was why the Chinese delegation wished to make some observations.

Dr. Sze said that the Chinese delegates wanted to have some agreement in terms so definite as to forestall loose interpretation on the part of the public. He thought the Chinese proposal was in that respect more adequate. He regretted that Mr. Hanihara could not come there that afternoon, but, as Baron Kato had suggested at the initial meeting what they called a panel system, he hoped the Japanese delegation might see their way to go over just that part of the discussion and complete it that afternoon.

Baron Shidehara agreed that the afternoon session should take place at 4 o'clock.

Dr. Sze repeated his regret at missing Mr. Hanihara's beaming smiles.

Baron Shidehara said that the procedure that the Japanese delegates suggested was that the Chinese police should be right there on the spot before the Japanese troops withdrew. The Chinese plan was that the Japanese troops should be first withdrawn and that then the Chinese police force would appear. The Japanese idea was to avoid an interregnum.

Dr. Koo said that the Chinese delegates would modify their plan to meet that point.

WASHINGTON, D. C., *January 11, 1922.*

TWENTY-SECOND MEETING.

The twenty-second meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 4 o'clock in the afternoon of Wednesday, January 11, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawklings Yen, Mr. T. C. Yen, Mr. T. Y. Tsai, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

WITHDRAWAL OF TROOPS.

Baron Shidehara handed to the Chinese delegates the following formula:

"The Japanese troops, including gendarmes now stationed along the Tsingtao-Tsinanfu Railway, shall be withdrawn as soon as the

Chinese police force shall have been sent to take over the protection of the railway.

"The disposition of the Chinese police forces and the withdrawal of the Japanese troops under the foregoing provisions may be effected in sections. The date of such process for each section shall be arranged in advance between the competent authorities of Japan and China, but in no case shall the entire withdrawal of the Japanese troops extend for a period longer than six months from the date of the signature of the present agreement.

"It is understood that in the sections of the railway in which the Chinese police force shall have taken over such protection the Chinese authorities shall be responsible for the full and efficient protection of the railway as well as of the persons and property of foreign residents.

"The Japanese garrison at Tsingtao shall be withdrawn within 30 days from the date on which the transfer of the administration of the leased territory to China is to be completed."

Baron Shidehara said that the Chinese delegates would recognize that he had somewhat modified his draft. He desired before proceeding with the discussion of the question to state that he would like to give figures as to the number of the Japanese troops stationed along the railway and the leased territory of Kiaochow. The number stood at 2,700 officers and men, of whom 1,800 were distributed along the railway and 900 stationed at Tsingtao. With regard to the police force, there were 12 men attached to the Japanese consulate at Tsinanfu. The number of the troops just mentioned included 300 gendarmes.

Dr. Koo said that after the morning session had adjourned he had tried to draw up a new formula by amalgamating the drafts by Baron Shidehara and himself. Perhaps the Japanese delegates would like to see it. The substance was the same as the earlier drafts of the two delegations. Whereupon he handed over to the Japanese delegates the following formula:

"The Chinese Government will as soon as possible send a sufficient number of military or police force to take over the protection of the Tsingtao-Tsinanfu Railway. The Japanese Government will thereupon immediately withdraw to Japan all the Japanese troops, military constabulary, and other forces which are now stationed along the railway and its branches and in other parts of Shantung.

"The date of the withdrawal of the said Japanese troops, constabulary, and other forces shall be arranged in advance between the two Governments, but in no case shall the complete withdrawal of the said troops, constabulary, and other forces extend beyond the date of the coming into force of the present agreement.

"The withdrawal of the Japanese garrison at Tsingtao, however, shall be completed not later than the date on which the transfer of the administration of the leased territory of Kiaochow takes place."

The only point of difference, Dr. Koo continued, between Baron Shidehara's formula and his own was, in the first place, as to the dates on which the withdrawal of the two classes of troops—one stationed in and the other outside of the leased territory—was to be completed. On that point he would say that the Japanese forces along the railway and other points in Shantung should be withdrawn

not later than the date of the coming into force of the present agreement, so that no departure should be made either from the position hitherto taken by the Japanese Government or that taken by the Chinese Government.

As to the withdrawal of the Japanese garrison from Tsingtao, such withdrawal should be effected when the transfer of the leased territory of Kiaochow took place, in order not to give ground for misgiving on the part of the Chinese people. He took it that if the transfer of the administration was effected and the Japanese troops should fail to be withdrawn at the same time, if they were to remain longer, even by a few days, after the transfer had taken place, an awkward situation would present itself.

There was another point—the responsibility of protecting the railway. That was, in the opinion of the Chinese delegates, more or less implied. When the Chinese authorities undertook to send Chinese forces to the railway, he thought they naturally would see that such protection would be given. He thought and felt certain that protection would be given independently of any express undertaking in the agreement. Such protection was implied in all treaties subsisting between China and Japan. He was sure that the Japanese delegates would share his views on that point. The Chinese Government would feel that absence of any provision in the agreement would not matter.

On the other hand, as to the withdrawal by sections of the troops, if Baron Shidehara thought that it was advisable to insert a clause on that point, the Chinese delegates had no objection. The Chinese delegates only thought that that was a question of detail.

Baron Shidehara said that the dates as proposed by him should offer absolutely no ground for suspicion that Japan desired to protract the stay of the soldiers in Shantung. The Japanese delegates were as anxious as the Chinese delegates to have the troops withdrawn. However, when an understanding was made, he thought it most essential that it should be of such a nature as could be carried out without fail. So far as the withdrawal of the Japanese troops stationed outside the leased territory was concerned, it depended practically upon the time when the Chinese police would be ready to take over the protection of the railway. What Japan desired was that Chinese police forces should be on the spot. Should China send their men within two weeks, the withdrawal should take place within two weeks.

Dr. Koo observed that the obligation rested on the Chinese Government as well as upon the Japanese Government. It was reciprocal.

Baron Shidehara assured the Chinese delegates that Japan would undertake that as soon as the Chinese police force were on the spot the Japanese troops would at once be withdrawn.

Dr. Koo said that if they were to have a longer period within which to effect such withdrawal it would only cause general misapprehension, because heretofore the Japanese Government had made it clear and the Chinese Government had understood that the Japanese troops stationed along the railway and in Tsingtao would be withdrawn as soon as the Chinese police forces were sent to take over the duty of protecting the railway, and that such withdrawal could be effected even before an agreement was reached in regard

to the whole of the Shantung question. The Chinese delegates, on their part, had no desire to give rise to misapprehension that China desired to prolong sending such force to Shantung. He knew that Japan, on her part, did not desire to prolong the withdrawal either.

Baron Shidehara said that that was not the intention of Japan at all. He did not think, however, that there could be any misapprehension on the part of the public if the agreement was reached in the form he had drafted it. If it was signed now the troops would be withdrawn at the latest by July next. He thought that that was a short period of time.

Dr. Koo said that he saw that, but he wondered whether his point had been made clear. The Chinese position was this: In the note sent to the Chinese Government by the Japanese minister in Peking on January 19, two years ago, the Japanese Government declared that they had no objection to effect the withdrawal of troops even before reaching an agreement on the Shantung question. That fact was widely known in China. Therefore if an insertion should be made in the agreement that the completion of the withdrawal would extend over six months after its signature, the withdrawal of the troops would be generally regarded as being unduly delayed.

Baron Shidehara said that that was not the meaning of his draft. The Japanese delegates had no intention of unnecessarily prolonging the withdrawal of the troops. It was expressly stated in the draft that "as soon as the Chinese police force shall have been sent to take over the protection of the railway" the Japanese troops would be withdrawn.

Dr. Koo asked whether it was then the suggestion of Baron Shidehara to provide for the contingency that the Chinese police force might not be ready to take over the protection.

Baron Shidehara said that some arrangement should be made in advance so that the Chinese police force should be on the spot when the withdrawal of the Japanese troops would take place. Such arrangement should be made locally; it could not be made here in Washington. He wondered whether that could be done before the coming into force of the agreement. He thought that there should be a sufficient margin of time.

Dr. Koo said that really the shorter the period the greater would be the obligation to get the police forces ready to take over the protection of the railway.

Dr. Sze feared that the period of six months might be misinterpreted as a departure from the declared intention of the Japanese Government.

Baron Shidehara said that that could not be taken as a departure. That would be clear from the first part of the draft.

Dr. Sze said that it might be taken as if to provide a pretext to the Japanese commandant to remain six months longer.

Baron Shidehara said that that was not at all the case. When the Chinese police force were sent the Japanese troops would at once be withdrawn. It would never prolong the departure of the Japanese troops. He thought that it would be better, in order to avoid any possibility of misunderstanding, that the dates should be arranged in advance by the authorities of the two countries. He supposed that a period of six months was not too long. It only defined the end of the withdrawal. The public would never misunderstand.

Dr. Koo said that the Chinese Government were anxious to have a definite date stated because they had to provide the police force. If it was agreed that the complete withdrawal would be effected not later than the date of the coming into force of the present agreement, China, on her part, would see to it that necessary police force should be ready within a very short period. He did not think that that would add any difficulty. As a matter of fact, he thought that there would be some time between the signature of the agreement and its coming into force.

Baron Shidehara called the attention of the Chinese delegates to the fact that he had put it "signature" instead of "coming into force," because he could not depend so much upon the date of the latter as on that of the former.

Dr. Sze said that if there were 1,800 men the period of six months would mean the withdrawal of nine men a day. Japan could do better than that.

Baron Shidehara said he himself did not quite know what form this arrangement should finally take. If it was going to be a treaty, it would be necessary to exchange ratifications. It would take quite a long time to conclude such exchange. He wanted to make it clear that the withdrawal would not be dependent upon the coming into force of the agreement.

Dr. Sze said, according to the understanding of the Chinese delegates, the Japanese Government had declared two years ago that the withdrawal of the troops could be effected without regard to the general agreement on the Shantung question.

Dr. Koo said that the Chinese delegates had no particular preference for the "coming into force" if it was Baron Shidehara's idea to take "signature" as the starting point. The period could be fixed at two or three months from the date of the signature without giving rise to misapprehension in the popular mind.

Dr. Sze thought that, in the nature of the case, the less qualifying clauses attached to the agreement the better the general effect.

Baron Shidehara said that he really did not see why the period of six months would give rise to misapprehension. He did not know when the present arrangement could come into force. If it would take the form of a regular treaty, it would not be capable of coming into force before its ratification. It might take six months.

Dr. Sze observed that should the withdrawal of troops be made to depend upon the signature of the agreement, it would be going counter to the undertaking Japan had made two years ago that it would be effected independently of the arrangement of the whole Shantung question.

Baron Shidehara said that the agreement stated that the withdrawal would be completed within six months, but that it could be effected any time as soon as the Chinese police force was ready to take over the protection.

Dr. Sze remarked that even if they made the signature of the agreement the starting point, the date would still be uncertain.

Baron Shidehara said that it could be said that the entire withdrawal of the Japanese troops should not extend longer than six months from such and such a date. And at the same time it could be said that the withdrawal would be effected independently of the

agreement. Then the arrangement would still be in conformity with the Japanese note of January 19, 1920.

Baron Shidehara added he supposed that the present arrangement formed part of the general agreement on the Shantung question. Should the whole agreement fall through, the present agreement would also fall through.

Dr. Sze replied in the negative. He thought the withdrawal of the troops should be effected independently of the agreement on the whole Shantung question, as had been manifested in Mr. Obata's note alluded to before.

Baron Shidehara wondered whether Dr. Sze meant to say that it would not be necessary to make an arrangement about the withdrawal of the troops in relation to the Shantung question.

Dr. Sze stated that that was what Mr. Obata's note said. (He showed Baron Shidehara a copy of the note in Chinese.)

Baron Shidehara said if the Chinese delegates would say that that offer was acceptable, the way for the Chinese Government to take was to write to Mr. Obata that they were ready to organize and send a police force on such and such a date. The question could be settled at once. That offer had long been made, but China had not answered it.

Dr. Sze said that if that course were to be followed the impression would become abroad that there was no harmonious working between here and Peking.

Baron Shidehara wondered whether he was to understand that the Chinese delegates were ready to accept the offer made by Mr. Obata.

Dr. Sze stated that he had only alluded to a certain offer previously made by Japan and which he understood still stood. If an arrangement were made along the lines suggested by Baron Shidehara, the people might say that they did not tally with the Japanese note of 1920.

Baron Shidehara said if China was to accept this offer it would be very simple. It would not be necessary to make an arrangement here on this point.

Dr. Koo said that the point was if the offer still held good, then the two delegations might take it as a basis for discussion at present.

Baron Shidehara said that that offer certainly held good now. If China should accept it, arrangements should be made in Peking.

Dr. Koo asked whether that offer could not be taken as a basis of discussion here. The two delegations had reached an agreement in substance; it was only details that they were discussing.

Baron Shidehara said after all there were two alternatives—in the first place, for China to accept Mr. Obata's offer, or, if the Chinese delegates desired to propose that the details of the matter should be discussed at this meeting, they would have to be discussed as a part of the settlement of the whole Shantung question.

Dr. Sze thought that the phrase "from the date of the signature" was misleading; he would stick to the Chinese position that a definite date should be mentioned—say, March 1, March 15, or April 1—so that the people would have no misapprehensions.

Baron Shidehara desired to know whether it was understood that the proposed agreement formed part of the whole agreement of the Shantung question.

Dr. Sze said that it was the same as in the case of the post offices discussed at the full meeting on the Pacific and Far Eastern questions. A definite date should be mentioned. Substantially it would be the same thing, but it would be better for the Chinese delegation—and for both delegations—because they could easily make people understand. Therefore the Chinese delegates would stick to their old stand.

Baron Shidehara said that before discussing that point he would ask Dr. Sze whether the Chinese delegates accepted the Japanese position that the clause formed part of the general agreement?

Dr. Sze replied that it depended upon in what sense Baron Shidehara said so. He wished that he would not be misunderstood, but, unfortunately, he could not see why the clause should be made contingent upon the general settlement of the question.

Baron Shidehara said that if Dr. Sze were of opinion that the present agreement for the withdrawal of the troops formed no part of the whole Shantung settlement, he had to express a different view. This clause could not take effect independently of the general agreement, but even in case the general agreement fell through the Chinese delegates would not be placed in any worse position in regard to the matter of the withdrawal of troops.

Dr. Sze said that he did not quite perceive the meaning of Baron Shidehara's words. Did Baron Shidehara mean that the offer held good in Peking, but not in Washington?

Continuing, he desired to ask a question in regard to paragraph 1 of Baron Shidehara's draft. If China should dispatch her police force immediately, would Japan be prepared to withdraw her troops at the same time?

Baron Shidehara said that the date must be fixed in advance.

Dr. Sze inquired whether, if China should be prepared to send 2,000 police force or troops within, say, 10 days, and should request the withdrawal of the Japanese troops, such proposition would be entertained? He desired to know exactly whether that was the meaning of that paragraph. He wanted to know to what extent paragraph 1 was modified by paragraph 2.

Baron Shidehara said that paragraph 2 did not in any way modify paragraph 1. The former only supplied the method to give effect to the engagement made in the latter.

Dr. Sze inquired whether, should China say that the police force would be dispatched to Shantung, say, next week, or February 10, under paragraph 1 of the proposed agreement, the Japanese Government would be ready to agree to that proposal.

Baron Shidehara pointed out that that should be arranged between the authorities of the two countries.

Dr. Sze said that that was so, but he wanted to know what Baron Shidehara thought Japan would do in such circumstances.

Baron Shidehara remarked that that was rather an academic question.

Dr. Sze said that that was not an academic but rather a concrete case. He wanted to be clearly informed as to every phase of the arrangement.

Baron Shidehara said that the meaning of his proposal was this: If China should give notice to take over the protection of the rail-

way at the Tsinanfu end on, say, February 1 or 15, and if the authorities of the two nations found that that date was quite practicable, then on that date China would send her men and Japan withdraw her troops at once.

Baron Shidehara said that the Chinese delegates had offered to arrange that in no case the withdrawal should extend beyond the date of the coming into force of the present agreement. He had said "from the date of the signature." What difference could there be between the two? As he had explained several times before, the date of the coming into force would be very indefinite, while the date of the signature would be more easily foreseen.

Dr. Sze said that what he had in mind was to avoid any misunderstanding on the part of the Chinese people, who had no access to the proceedings of the meeting. What he had been proposing had been proposed from his anxiety to forestall any misconception by the public.

Baron Shidehara said that there would be good reason in explaining to the people. The original offer made by Mr. Obata had contained no date of the withdrawal of the troops. The Chinese delegates could now say to the people that Japan agreed to complete the withdrawal within six months.

Dr. Sze said that six months was a long time. If there were 3,000 officers and men, it would come to the withdrawal of 9 men a day.

Baron Shidehara said that it was not necessary to wait until the expiration of the six months. If the Chinese delegates took paragraph 1 and paragraph 2 of his draft formula, the meaning would be entirely clear. The Japanese plan would seem to him better calculated than the Chinese formula to prevent misunderstanding instead of creating it on the part of the general public. According to the Chinese draft there was, after all, no fixed date. If by any means ratification should be indefinitely delayed, there would be no basis for calculation of the period of time within which the troops should be withdrawn.

Dr. Sze said that at any rate six months seemed to him to be too long. If the Japanese delegates agreed to make it shorter, the Chinese delegates would waive aside all other discussions in this matter.

Baron Shidehara said that he did not think six months was very long. If the present agreement was to be signed on the 20th of this month, the withdrawal would have to be completed by the 20th of next July. He did not think that people would say that Japan wanted to protract the withdrawal.

Dr. Sze asked if Baron Shidehara did not think one month enough.

Baron Shidehara answered that he certainly thought that period to be short. Before making any agreement Japan had to be perfectly sure that the agreement could be carried out. He had at first proposed nine months. He had since consulted military experts of his delegation. They had said that if the whole thing was done with expedition they might be able to effect the withdrawal in six months, so he had now proposed that shorter period to meet the Chinese desire to remove misunderstanding by fixing a definite date for the complete withdrawal. He did not know how the Japanese troops were distributed, but he would suppose that withdrawal in some cases would take a comparatively short period, while in other cases

it might take five or even six months. He and his colleagues really hoped, however, that as a matter of fact withdrawal would be effected earlier.

Dr. Sze asked whether, when he said five or six months, Baron Shidehara had in mind the removal of the barracks, etc.

Baron Shidehara said he did not have the barracks, etc., in his mind. As he had said on a previous occasion, these military establishments might be of use to China for her police force. The question of the period of withdrawal was not one of years, but only of months. He did not like to have the matter subjected to bargaining.

Dr. Sze said that if one month were considered too short it might be made two months.

Baron Shidehara begged Dr. Sze not to treat the proposition as a matter of bargain. The military men in the Japanese delegation had said it was safer to put it six months.

Dr. Sze said that even the Germans, when they had been bidden to withdraw their troops from outside the leased territory, had requested only four months in which to effect the withdrawal. It should not be said that Japan requested 50 per cent more time.

Baron Shidehara pointed out the difference between the two cases, both in regard to the number of troops and the distance of their transportation.

Dr. Sze said he would urge upon the Japanese delegates to substitute "six" with "two" in regard to the number of months in the Japanese formula. That would show Japan's readiness to make good her avowed intention.

Baron Shidehara said that he was not a military man, and that, moreover, he had no local knowledge. He had consulted military experts, and they had said six months was barely enough. He did not know if it was practicable to fix an earlier date. The whole matter was not a very important question either. It would be unfortunate to postpone the discussion of the matter on a difference of three or four months. The Japanese delegates were not in a position to offer a shorter period, because the period of six months had been offered on the authority of military men. In any case, that was proposed as the maximum. As a matter of fact, however, he hoped the withdrawal would be effected in the shortest possible period of time.

Dr. Sze said that he would, therefore, appeal to the Japanese delegates not to insist upon the maximum period. The whole desire of the Chinese delegates was that they should be able to say that the Japanese troops were going to be withdrawn in a shorter period than the Germans had requested in a similar case.

Baron Shidehara said that he did not think people would consider six months too long. The question was one of practicability.

Dr. Sze suggested that if no agreement could be reached as to the period that point should be put aside for the time being. As to the next paragraph of Baron Shidehara's plan, he would say, as Dr. Koo had pointed out, that the mention of distinct understanding as to the protection of the railway property and the persons and property of foreign residents was not acceptable to the Chinese delegates.

Baron Shidehara asked the reasons for the objection on the part of the Chinese delegation?

Dr. Sze said that the insertion of such a special understanding was a reflection upon the Chinese railway forces. There were treaties between Japan and China in regard to the protection of Japanese nationals in China. There would, therefore, seem no necessity for such special provision.

Baron Shidehara said that if there was any objection on the part of the Chinese delegates to make the third paragraph a distinct condition in this article, he would be ready to have it stricken out. He would propose, however, that this distinct understanding should be recorded in the minutes of the meeting.

Dr. Koo said that the Chinese delegates had no objection to the suggestion if it was understood that China was to accord to the persons and properties of Japanese nationals such degree of protection as was entailed by the general principles of international law. He supposed that the Japanese delegates were not requesting any higher standard of protection for Japanese nationals and properties than for other nationals in China.

Baron Shidehara answered that certainly no special protection was being requested.

Dr. Sze said that with reference to the final paragraph of Baron Shidehara's formula, the Chinese delegates wished that the withdrawal of the Tsingtao garrison should be completed not later than the date of the transfer of the administration of the leased territory. Tsingtao was not a very large city, and 900 was a good-sized number of troops for the city. He would appeal to the Japanese delegates that they might see their way to agree to his suggestion. When the transfer should take place the Chinese Government would afford this new administration of Tsingtao every facility for the successful governing of the locality and see that all impediments were removed for them. He would therefore ask the period of 30 days in the Japanese formula should be stricken out.

Baron Shidehara said that it was also a question of practicability. The Japanese troops would certainly not wait idle after the transfer of the leasehold had been completed.

Dr. Sze said that with good will on both sides it would be quite practicable.

Baron Shidehara said that, practically speaking, the disposition of military transports was not an easy matter with the Japanese Government. It was possible that when the transfer of the leasehold was completed at a given date the necessary transport facilities would not be there in time. There were no large number of transports belonging to the Government, and it might be necessary to make special arrangements with shipping companies.

Dr. Sze said that it might be so arranged that the transport should arrive in port a few days in advance.

Baron Shidehara said that in any case it was not the Japanese intention to let the soldiers remain idle in Tsingtao. He would, however, suggest changing his formula so as to read "as soon as possible within 30 days." There was absolutely no reason why Japan should prolong the stay of the soldiers if it could be avoided.

Dr. Sze said that after the administration of the leasehold had been taken over the Chinese authorities would take steps to protect the place and would send troops to the locality. If Japanese troops

should still be there, there would be caused, he was afraid, a good deal of inconvenience.

Baron Shidehara said that, of course, when the transfer was completed, it was understood that the Japanese garrison would not exercise any authority at all in Tsingtao.

Dr. Sze said that it was not that. The question was that there would be Chinese troops there and also a large body of Japanese troops. This circumstance itself would cause a good deal of inconvenience on both sides. The Chinese delegates were anxious to avoid untoward incidents as far as was humanly possible.

Baron Shidehara asked if it was thought that the Japanese might make any selfish use of the 30 days allowed them. The earlier the withdrawal was effected so much the better would it be for Japan; but it might be necessary for the troops to wait for the arrival of the transport. Thirty days was quite a modest period of time. He hoped that the Chinese delegates would accept his proposal as to period, both in paragraph 2 and paragraph 4, so that the whole question could be arranged.

Dr. Sze said that as regarded the period in paragraph 2, Baron Shidehara had offered nine months at first and then six months. He hoped that the third offer would now be made.

Baron Shidehara said that there should be no bargain on such a matter as dates and periods. Military men said that six months was necessary. They had to follow the opinion of experts in a matter like that.

Dr. Koo suggested that to expedite progress the proposals of both sides might be combined. There had been agreement in substance, only the question of practical arrangement, or rather of foresight, remaining undecided. He would suggest to change the last paragraph of the Japanese formula so as to make it read:

"The withdrawal should be completed as far as possible by the date on which the transfer of the leased territory is made, and in any case not later than 30 days from such date."

Baron Shidehara said that he did not quite like the idea of the phrase "by the date," for that sounded as if it was contemplated to withdraw the troops before the transfer of the leased territory.

Dr. Koo said that it did not mean that it was obligatory upon Japan to withdraw before the transfer. The troops might stay there if it was necessary.

Baron Shidehara suggested the phrase "simultaneously with the transfer" in place of "by the date," etc.

Dr. Koo said that if Baron Shidehara preferred that long word to the two simple words he would agree to the suggested change.

The formula finally agreed upon is as follows:

"The Japanese garrison at Tsingtao shall be completely withdrawn if possible simultaneously with the transfer of the administration of the leased territory of Kiaochow, and in any case not later than 30 days from the date of such transfer."

Baron Shidehara said that the question of six months was the only one now remaining.

Dr. Sze said that in view of Dr. Koo's complete surrender on paragraph 4, he (Dr. Sze) hoped Baron Shidehara would concede on paragraph 2.

Dr. Koo said that he did not wish to appear to be bargaining, but he did feel that six months was much too long. He would ask Baron Shidehara to suggest a compromise.

Baron Shidehara said it was difficult for him to make modifications. He had obtained the figure from military experts. If he were to offer a shorter period, these military men might say that the plan was impracticable. He had asked them to give him the shortest possible period, and they had told him that six months was the shortest period in which to effect the contemplated withdrawal.

Dr. Koo still insisted.

Baron Shidehara said that, if practicable, he would have no objection at all to making the period shorter, but military experts thought a shorter period impracticable. That was the difficulty. He did not think that there could be misunderstanding in the public mind if the period of six months were to be agreed upon.

Dr. Sze asked if it was proposed that the question of period should be left until the following day.

Baron Shidehara wondered if a wording similar to that adopted in regard to the Tsingtao garrison might not be adopted in regard to the railway guards, so as to change his formula as follows:

"And the entire withdrawal of such Japanese troops shall be effected, if possible, within three months, and in any case not later than six months from the date of the signature of the present agreement."

Dr. Koo said that in the first paragraph, after the words "Tsingtao-Tsinanfu Railway," there was the phrase "and its branches." He would suggest to add "and other parts of Shantung." The Chinese delegates understood that Japan maintained a small number of troops at the mines. They supposed that these troops would also be withdrawn.

Baron Shidehara answered in the affirmative. He thought, however, that in any case the word "branches" covered the troops stationed near the mines.

Dr. Koo asked if it was the baron's opinion that the word "branches" could cover mines and other properties appurtenant to the railway. He added that in the main the Chinese delegates intended to agree to the modified formula. He was only trying to suggest slight modifications as to the wording.

Baron Shidehara thought that the word "branches" covered all those things Dr. Koo seemed to have in mind. They might, however, perhaps have it recorded in the minutes that the railway branches included mines, etc.

Dr. Koo said that there might also be some factories which were being guarded by troops. His idea was simply to avoid any possibility of difference in opinion when it came to the execution of the agreement.

Baron Shidehara said that there were no troops assigned specially for the protection of factories. In any case the wording "along the railway" was inclusive of many things.

Dr. Koo thought that the wording "other parts of Shantung," which occurred in the original Chinese formula, was preferable.

Baron Shidehara said that it might give the impression that Japan had stationed troops all over the Shantung Province.

Dr. Koo said that the purpose of his inquiry was to ascertain whether, after this agreement, there would be any more troops left in any part of the Shantung Province. If that point was clearly recorded in the minutes he would accept the modified formula.

Baron Shidehara agreed.

Dr. Koo, continuing, said that, in other words, the Japanese troops, including gendarmerie and other types of Japanese forces, should be withdrawn from along the railway.

Baron Shidehara said that he would rather say "other types of military forces," because there was no police force stationed along the railway.

Dr. Koo said that he would agree without compromising the position of China in regard to this outstanding question of police between the two Governments. He would further insert the words "or military forces" after the words "Chinese police force."

Baron Shidehara said that he had just been informed that the military force in the Shantung Province was a bad type, consisting of undisciplined troops. He was afraid trouble might be created unless well-disciplined troops were chosen from some other part of China.

Dr. Koo said that the matter could safely be left to the Chinese Government.

Baron Shidehara said that as a matter of fact he hoped that that point might be taken into consideration by the Chinese Government.

Dr. Koo asked if this question of the withdrawal of the Japanese troops was now to be regarded as completed.

Baron Shidehara answered in the affirmative.

The final agreement on the entire question is as follows:

"The Japanese troops, including gendarmes now stationed along the Tsingtao-Tsinanfu Railway and its branches, shall be withdrawn as soon as the Chinese police or military force shall have been sent to take over the protection of the railway.

"The disposition of the Chinese police or military force and the withdrawal of the Japanese troops under the foregoing provisions may be effected in sections. The date of the completion of such process for each section shall be arranged in advance between the competent authorities of Japan and China. The entire withdrawal of such Japanese troops shall be effected if possible within three months, and in any case not later than six months from the date of the signature of the present agreement.

"The Japanese garrison at Tsingtao shall be completely withdrawn simultaneously, if possible, with the transfer of the administration of the leased territory to China, and in any case not later than 30 days from the date of such transfer."

WASHINGTON, D. C., *January 11, 1922.*

SJC-22.]

JANUARY 11, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twenty-first and twenty-second meetings of the Chinese and Japanese delegates were held in the governing board room of the

Pan American Union Building at 11 a. m. and 4 p. m., respectively. Pending instructions from their Governments on the question of Tsingtao-Tsinanfu Railway, the two delegations discussed the withdrawal of the Japanese troops along the railway and its branches and an agreement on such withdrawal was reached. The meeting adjourned at 7 p. m. until 11 o'clock to-morrow morning, January 12, 1922.

TWENTY-THIRD MEETING.

The twenty-third meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 11 o'clock in the morning of Thursday, January 12, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawklings Yen, Mr. T. C. Yen, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

THE EXTENSIONS OF THE SHANTUNG RAILWAY.

Dr. Sze said he understood that the question of the extensions of the Shantung Railway was to be discussed to-day. He desired that more elucidation might be given to article 5 of the Japanese note of September 7, 1920.

Baron Shidehara said he could not quite see in what respect that article required further elucidation. The Japanese position was that Japan held certain rights in relation to the extensions of the Shantung Railway as well as options for the construction of the Yentai-Wehsien Railway, and that she was prepared to throw them open for the common activity of the international consortium. She did not now insist that she alone should build the railways, and that those rights should be held exclusively by Japan.

Dr. Sze said he desired to be informed what was meant by the "extensions" of the Shantung Railway; whether the Kaomi-Hsü-chow and Tsinan-Shunteh lines were meant.

Baron Shidehara replied in the affirmative. He noticed, however, that the preliminary contract between the Chinese Government and the Industrial Bank of Japan contained provisions that "to assure the success of the Tsinan-Shunteh and Kaomi-Hsuchow lines as a railway enterprise, if the location of the lines should be found not advantageous, the Government may arrange with the banks to change the location of the lines." Therefore, the exact location of the lines was subject to alterations by mutual agreement between the Chinese Government and Japanese banks.

Dr. Sze said that, so far as that exact point was concerned, there were previous cases in which the location of the lines had been modified in the actual construction of the lines. For instance, the original contract of the Tientsin-Pukow Railway had not had Pukow as a terminus, but later, when the line was to be built, Pukow was selected. In the same manner, certain points in the contract regarding the branch lines of the Shantung Railway could be changed.

Baron Shidehara confirmed his statement that by the term "extensions" the two lines mentioned had been in the mind of the Japanese Government.

THE YENTAI-WEIHSIEN RAILWAY.

Dr. Sze said that, as to the Chefoo-Weihsien Railway, the Chefoo people had expressed their wish to build the line themselves. So long as they could raise the funds for the construction of the line themselves, there was no occasion for them to borrow money from a foreign financial group.

Baron Shidehara inquired whether he could be informed how far the project of the Chinese people for the construction of the Yentai-Weihsien Railway had progressed.

Dr. Sze said that the Shantung Chamber of Commerce had passed a resolution to have the railway built by the local people. A company was being organized to finance the construction of the line.

Baron Shidehara desired to know whether necessary funds had already been raised.

Dr. Sze replied; no cash, but pledges.

Baron Shidehara inquired whether the Chinese Government had already given permission or license to the Chinese financial group for the construction of the railway.

Dr. Sze said that he was not very clear on that point. If, however, the local people would say that they could raise the funds, or that they had pledges to supply the funds, it would be very difficult for the Government to refuse their offer. The first opportunity should be given the local financiers.

Baron Shidehara asked whether Dr. Sze had been referring to the Shantung Chamber of Commerce.

Dr. Sze replied that he had meant the Shantung Chamber of Commerce, a chamber of commerce of the Shantung people. He added that the line in question was a very short one and the local people were ready to finance its construction.

Baron Shidehara stated that he had understood that in August, 1913, the Chinese ministry of communications had stated, in reply to an application of the Chinese merchants at Chefoo for constructing the Yentai-Weihsien Railway, that, in view of the bearing of the railway upon diplomatic relations of China, and, further, in view of the large amount of expenditure involved in the construction of the line, it was the policy of the Chinese Government to construct the railway as a Government enterprise. He desired to know whether that policy of the Chinese Government had subsequently been modified.

Dr. Sze said that what Baron Shidehara had referred to had occurred in 1913. Since that time a great many things had happened and, needless to say, circumstances had considerably changed. In view of that fact, the Chinese Government would no longer

interpose objections to the building of the line by the people themselves. Chefoo itself had undergone changes. Since those days harbor works had been greatly improved. It would be in the interests not only of the Chinese merchants but also of the foreign residents at Chefoo that the projected railway should be built at an early date. That extra feeder would also benefit the Shantung Railway itself. So long as the local merchants themselves could supply funds, it would be advisable to let them build the railway. Therefore, if a draft formula was to be drawn up, only the Tsinan-Shuntch and Kaomi-Hsuchow Railways should be referred to. Those two lines might be assigned to an international financial body.

Baron Shidehara said that he had understood that the project of the Chinese Chamber of Commerce had not yet come to a concrete form. The Chinese Government had not yet given any license, and the project for the construction of the railway did not seem to have materialized as yet. He desired to be informed whether Weih sien, instead of Kaomi, had been decided upon as the terminus of the projected railway.

Dr. Sze said that Langkow was going to be the terminus.

Baron Shidehara said that, as the Chinese delegates would remember, article 2 of the Shantung treaty of 1915 was very explicit on the point under discussion. It provided that the Chinese Government should, in the event of Germany surrendering her right of providing capital for the Chefoo-Weih sien Railway line, enter into negotiations with Japanese capitalists for the purpose of financing the said undertaking. A strict interpretation of this article seemed to be that it was obligatory upon the Chinese Government to enter into negotiations with Japanese capitalists in case the construction of the railway was undertaken, but if there was any definite plan for the Chinese merchants to construct the railway, Japan would not insist upon what seemed to be clearly the rights of her nationals. She would raise no objection to the project.

Dr. Sze said that it was best for the present to limit the conversations to facts as they were and not enter into any academic discussion. He was glad to hear Baron Shidehara state that Japan would not interpose any objection to the Chefoo-Weih sien Railway being financed by Chinese merchants themselves.

Baron Shidehara said that it would, of course, be needless for him to say that if the railway were to be constructed with foreign capital Japan would have to insist upon the matter of financing being placed with the international financial consortium. When he agreed that the railway should be constructed by Chinese merchants it was on the understanding that it would be done exclusively with Chinese capital.

Dr. Sze said that, with the permission of the Japanese delegates, he would ask Dr. Koo to read a formula he had drafted on the question of the extensions of the Tsingtao-Tsinanfu Railway.

Dr. Koo said that since there had been a practical agreement so far as the Chefoo-Weih sien Railway was concerned, the draft formula he was now going to propose had reference only to the extensions of the Tsingtao-Tsinanfu Railway. As to the construction of the Chefoo-Weih sien Railway, he would, of course, raise no objection to the statement made by Baron Shidehara upon that subject being inserted in the minutes of the meeting.

Dr. Koo's formula read as follows:

"The concessions to build the two extensions of the Kiaochow-Tsinanfu Railway, namely, the Tsinan-Shunteh and Kaomi-Hsuehchowfu lines, will be granted to an international financial body in which Chinese and Japanese capitalists are both represented on terms to be arranged between the Chinese Government and the said international financial body."

Continuing, Dr. Koo said that there was in his formula only a little alteration in the phraseology as compared with article 5 of the Japanese note of September 7, 1921.

Baron Shidehara said that he was not sure if in Dr. Koo's formula was made clear the point he had mentioned a moment ago. As he had explained, the Chinese Government, by their contract of September 24, 1918, entered into with the Industrial Bank of Japan, had undertaken that the construction of the projected railways should be financed by the Japanese banking group. Since that time the international financial consortium had been organized, and when the representatives of several banking groups of the consortium had met at New York the representative of the Japanese banking group had stated that the Japanese group would be ready to pool those concessions, with the consortium; so the situation was this, that the Japanese banking group had already obtained rights in regard to those projected railways and that they had undertaken to pool those rights with the consortium. There was no question of newly granting any rights to the financial consortium. While he did not quite remember the wording of Dr. Koo's draft, he hoped that the above point would be made clear.

Dr. Sze said that the Chinese delegates had no official knowledge of what had transpired at the meeting in New York. No Chinese representatives had taken part in the deliberations.

Baron Shidehara said that there had been no Chinese participation, but that was not the point. The Chinese Government had entered into a contract with the Industrial Bank of Japan in 1918. The Japanese banking group, at the invitation of the financial consortium which had since been called into existence, had offered to that financial body the rights they had acquired by that contract.

Dr. Sze said that any understanding to which China was not a party was not binding upon the Chinese Government.

Baron Shidehara said that the Chinese Government had entered into a contract with Japanese banking interests.

Dr. Sze said that he did not have the contract before him and did not know whether the Chinese Government had granted the Japanese bank the right to transfer their rights without previous agreement with the Chinese Government.

Baron Shidehara wondered whether, when the Chinese delegates seemed to question the right of the Japanese banking group to transfer those rights without the express consent of the Chinese Government, it was intimated that these rights should be held by the Japanese banking group instead of being offered to the consortium.

Dr. Sze answered in the negative. He added that the point Baron Shidehara had been making was that there was no question of any

new concession being offered to the consortium. But, as a matter of general principle, the Chinese Government could not feel bound by any understanding or arrangement in which the Chinese Government had not officially participated.

Baron Shidehara asked if the Chinese delegates did not recognize that the Chinese Government was bound by an agreement which it had concluded with the Japanese banking group.

Dr. Sze admitted that the Chinese Government was bound by any agreement properly entered into. He wondered, however, if Baron Shidehara had not objected to Dr. Koo's draft formula.

Baron Shidehara said that it was because the formula seemed to convey the idea that concessions were being newly created.

Dr. Koo said that his draft had been made simply to incorporate the substance of paragraph 5 of the Japanese note without trying to conceal any profound meaning. Baron Shidehara had pointed out that the Japanese banking group had already agreed to transfer their concessions to the international financial body. He considered it appropriate to point out that such concessions originally granted by the Chinese Government could not be transferred to a third party without the consent of the Chinese Government. The Chinese Government had not so far given any such consent to the transfer. As far as the relationship between the Chinese Government and the international consortium was concerned in regard to this particular question, he felt that some formality had to be gone through before this financial body could properly take over these concessions. When it was said, in the Japanese note, that these rights would be thrown open, etc., the expression seemed so definite that it conveyed the impression as if there were no doubt whatever as to the ultimate destiny of these concessions.

Baron Shidehara said that the Japanese banking group would, however, not be satisfied. The bankers would say that they had obtained special rights from the Chinese Government.

Dr. Sze said that the fact of the present discussion being held was proof that the Japanese bankers had some interest in the projected railway.

Baron Shidehara wondered whether the Chinese delegates' meaning was that, in turning over to the international consortium the rights held by the Japanese banking group, it would be necessary to obtain the consent of the Chinese Government.

Dr. Koo replied that that was practically what they meant.

Baron Shidehara said that with suitable changes in the present formula the idea could be clearly brought out.

Dr. Koo said that the turning over to the international financial body of the concessions should be done by both China and Japan. He understood that the Japanese bankers had already turned them over to the international body. The next step would be for the Chinese Government to turn over the concessions to the consortium; hence, the term "granted" in his proposed formula.

Baron Shidehara remarked that it was not the Chinese Government, but the Japanese bankers, that would turn the rights over to anybody. The rights had been in the possession of the Japanese bankers.

Dr. Koo said that Japan had, nevertheless, already turned them over to the international group.

Baron Shidehara said that the Japanese bankers had only undertaken to turn them over, but no definite arrangement had been made.

Mr. Hanihara stated that Japan had promised to hand over the rights, but so far no act of transfer, or "pooling," had as yet been completed.

Dr. Koo said that, so far as the Japanese capitalists were concerned, they had already offered to "pool" their rights. It only remained for the Chinese Government to agree to the transfer to the international group.

Mr. Hanihara said that the Japanese capitalists had only made a promise.

Dr. Koo said that in that case he could understand that the Japanese capitalists were only obligated to effect the transfer. In that case the wording of his draft formula could be retained. The word "granted" implied that the act of granting would be effected conjointly by Japan and China. The draft did not say "will be granted by China." Similar phraseology was used in the original Japanese proposal, the words "thrown open" being used absolutely.

Baron Shidehara said that the meaning of the Japanese proposal was based on the assertion that the right of financing the railway had been held by the Japanese banking group. That right the Japanese bankers alone could turn over to anybody else, but not the Chinese Government.

Dr. Koo stated that, unless the Chinese Government gave its consent, the transfer would not be valid.

Baron Shidehara said that if China did not give her consent, the right would remain with the Japanese bankers.

Dr. Koo said he would suggest modification in his draft to meet the Japanese wishes, so as to make it read:

"It is agreed that the concessions to build the two extensions of the Kiaochow-Tsinanfu Railway, etc., will be thrown open for the common activity of an international financial body, etc."

Baron Shidehara inquired whether by "an international financial body" the Chinese delegates had it in mind to refer to some other financial body than the existing international financial consortium.

Dr. Sze remarked that "consortium" was a German word which he did not like to use.

Baron Shidehara asked whether it was simply the phraseology that the Chinese delegates objected to. He added that, as the matter stood at present, the international financial consortium consisted of American, British, French, Japanese, and perhaps also Belgian banking groups. Chinese capitalists were not represented on that body. He understood that an application had come from Chinese bankers to have themselves represented there, and the admittance of the Chinese representatives had been, if he remembered right, under discussion by the representatives of banking groups already members of the consortium. It was difficult for Japan to commit herself in that respect pending decision by the consortium groups.

Dr. Sze said that, judging from what Baron Shidehara had just said, he thought that he had been right in trying to avoid the use of the word "consortium." Its formation was still in a nebulous stage.

Baron Shidehara said that the consortium was not in a nebulous form. The Belgian group had applied to become a member, and the-

consortium had already expressed its readiness to admit it. But that was only the question of the membership. The consortium itself had been lawfully organized. The question of allowing the participation of other groups would depend upon the decision of the groups already forming the international body, which was now a concrete entity.

Dr. Sze wondered whether Baron Shidehara had meant that the consortium had been formed, but its members had not been decided upon.

Baron Shidehara replied in the negative. The consortium had already been formed. Only new groups might be added to its membership. It might be likened to the League of Nations in that respect.

Dr. Sze said that for the members of the League of Nations the formation of the league might have been complete, but for non-members it was not officially in existence and they would in no sense be bound by it.

Baron Shidehara stated that it was quite clear that the consortium had been formed and was in existence. The question would be whether new members should be allowed to come in. That did not in any sense affect the organization of the consortium.

Dr. Sze inquired whether it was the idea of Japan to exclude Chinese capitalists.

Baron Shidehara said that he was not able to commit himself on that point without the consent of the members of the consortium.

Dr. Sze inquired what Baron Shidehara desired to propose.

Dr. Koo said that the whole difficulty really appeared to be this: The Chinese Government had no particular objection to entering into relation with the consortium, but the question still remained outstanding and so far the conversations which had taken place from time to time between the Chinese Government and the consortium had not led up to a definite agreement. The Chinese delegates did not feel justified to commit the Chinese Government in its relations with the consortium. On the other hand, the Chinese capitalists interested would at once raise the question, if the concession were to be turned over to the international financial group, why they should not be included in the consortium. They desired to enter into the the international group, and his information was that the present members of the consortium were willing to invite the Chinese bankers to join. The relation between the Chinese bankers and the consortium was in the process of crystallization. He had had the above situation in mind when he had adopted the phraseology, "an international financial body in which Chinese and Japanese capitalists are both represented, etc."

Baron Shidehara wondered whether the Chinese delegates could not accede to the modified formula, reading as follows:

"It is agreed that the rights granted by the Chinese Government to the Japanese financial group under the contract with the Chinese Government of September 28, 1918, relating to the two extensions of the Kiaochow-Tsinanfu Railway, namely, the Tsinan-Shunteh and the Kaomi-Hsuehowfu lines, will be thrown open for the common activity of an international financial body, on terms to be arranged between the Chinese Government and the said financial body."

Dr. Koo wondered whether Baron Shidehara had added anything to his (Dr. Koo's) formula, except in one respect; that was, that Baron Shidehara had given much fuller description to the concessions. He was afraid that such full description might give rise to misapprehensions and misunderstandings. Both delegations were talking about the same thing. If so, there would be no need of describing it as had been proposed by Baron Shidehara. As to the latter part of the formula just proposed, however, the Chinese delegates had no objection. Further, he wondered whether "concessions" would not better be substituted for the word "rights." The former was in more frequent use.

Mr. Hanihara remarked that the contract referred to in the Japanese formula did not provide for concessions to build the railways, but for the rights to finance it.

Dr. Koo said that in that case such phraseology as "concessions relating to the building of the railway" might be used.

Mr. Hanihara said that whatever word might be used, it did not seem to him that the point he had mentioned could be made clear. The contract referred to had been published long ago. It was now public property. There was no use avoiding reference to it.

Dr. Koo said that the Chinese delegates were now discussing the matter with the Japanese representatives, and not with anybody else. That very fact would be sufficient indication. As a matter of fact, the Chinese delegates were adopting the whole Japanese paragraph excepting the one little word "rights," which they suggested to make "concessions."

Baron Shidehara said that, in order to meet the Chinese wishes, he would suggest a new formula, avoiding special reference to the contract of 1918, reading as follows:

"It is agreed that the *concessions relating to* the two extensions, etc."

He desired that at the same time it should be recorded in the minutes that the concessions as above referred to meant the rights which had been stipulated in the contract of September 28, 1918.

Dr. Koo said that if the Japanese delegates desired to enter that point in the minutes he had no objection. He then suggested to substitute the word "group" for "body."

The final agreement read as follows:

"It is agreed that the concessions relating to the two extensions of the Tsingtao-Tsinanfu Railway, namely, the Tsinan-Shunteh and the Kaomi-Hsuchowfu lines, will be thrown open for the common activity of an international financial group on terms to be arranged between the Chinese Government and the said group."

TWENTY-FOURTH MEETING.

The twenty-fourth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 3 o'clock in the afternoon of Thursday, January 12, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. C. Yen, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

OPENING OF THE PORT.

Dr. Sze said that in regard to the opening of Tsingtao as a port of trade, it had been proposed in the Japanese note of September 7 that foreign nationals coming into China were not permitted to engage in commerce, industry, and agriculture. He would point out, however, that foreign nationals in Tsingtao should be permitted to carry on trade in agriculture and that the same rule must apply to Tsingtao. As to the phrase "other lawful pursuits" in the said Japanese note, he desired to mention the fact that there might perhaps be pursuits which, while lawful, would have to be restricted either as a result of existing treaties or on account of the Chinese monopoly system.

Baron Shidehara said that in the Chinese communication of October 5, sent in reply to the Japanese note of September 7, it had been stated that agricultural pursuits concerned the fundamental means of existence of the people of a country and that according to the usual practice of all countries no foreigners were permitted to engage in agriculture. The Japanese delegates were not informed that there was such an international practice of common acceptance. It was true that agriculture had intimate connection with the means of existence, but it seemed to him that it ought to make no difference to China who supplied agricultural products to Chinese markets. He would suppose that China, with her cheap labor, would be able to compete successfully with foreign producers. But in any case the Japanese delegates had no intention of insisting upon the inclusion of agriculture among the rights of foreigners to be protected in this connection. As to Dr. Sze's question whether pursuits coming within the scope of the Chinese monopoly system were included in the term "lawful pursuits," he (Baron Shidehara) understood that as a matter of fact no Japanese were engaged in any such pursuits as belonged to Government monopoly in China. He could say, however, that it was not the intention of the Japanese delegation to have such special kind of pursuits permitted to Japanese nationals in Tsingtao. In saying so, however, he would like to make it clear that this recognition on their part was entirely without prejudice to the position taken by them on the question of the salt industry.

Dr. Koo inquired whether he was to understand that the Japanese delegates, while agreeing to his interpretation in regard to the terms "agriculture" and "lawful pursuits," desired not to prejudice their position in regard to the salt industry.

Baron Shidehara answered in the affirmative.

Dr. Sze said that Japan, in asking the opening of Tsingtao as a port of international trade, wanted to have the entire extent of the leased territory included in the open port. As the Japanese delegates saw, the greater part of the leased territory was on the Tsingtao side, while there was only a small stretch of land on the left-hand side of the bay. For actual administrative purposes it would be inconvenient to include this small stretch on the left-hand side in the open port of Tsingtao. There was no road connecting this part with the main city district. As to the Tsingtao side, there was no question. He would only like to hear any observation the Japanese delegates might make as to what extent the undeveloped part of the leased territory should be included in the proposed Tsingtao open port. He assumed that they had no objection to the exclusion of the left-hand side, because it was not developed at all, the Germans having used it only for purposes of defense.

Baron Shidehara said that he had no knowledge of the locality, but that it would seem that the left-hand side might become important in future, when the right-hand side was still further developed. It was true that the bay separated the two parts, but it was possible to cross the bay very easily by such means as ferryboats, etc. He hoped that the Chinese Government would be able to include the left-hand side of the bay in the extent of the open port.

Dr. Sze said that the left-hand side was only a small fraction compared to the right-hand side.

Baron Shidehara said that with the development of the city district it might become necessary.

Dr. Sze said that the development would be in the other direction, for there was no village at all on the left-hand side. It would entail extra expenditure upon the administration to have to look after the left-hand side also.

Baron Shidehara said that the leased territory itself was a small stretch of land all around the bay. It would be very easy to cross the narrowest part of the bay. He thought it was about one-third of a mile.

Dr. Sze said that it was more than 3 miles at the narrowest part.

Baron Shidehara wondered if there were no houses on the left-hand side. If there were no people living on that side, it would cause no difficulty for the Tsingtao administration to take in that part. The entire district had beautiful climate, and Tsingtao might grow into a still more prosperous city. It was very possible that the left-hand side might also become quite important.

Dr. Koo asked if Japan had any factories or industrial establishments on that side.

Baron Shidehara had no local knowledge.

Dr. Koo said that it seemed to him that with the growth of foreign trade the municipal district would naturally have to be extended to the left-hand side. So long as things now stood, the right-hand side would be sufficient for some time yet.

Baron Shidehara said that it might become important as trade grew.

Dr. Koo said that naturally the question of extension would be taken into consideration by the Chinese Government when the

growth of foreign trade required it. There would be no apprehension on the part of the public on that score.

Baron Shidehara said that he could not see any possible disadvantage to China to have the left-hand side included.

Dr. Koo said that there was no village on that side and it would not be advisable to extend administrative installations to that part.

Dr. Sze said that originally the Germans had used that part only for naval base and not for trade.

Baron Shidehara said that he should not wonder, because the Germans had held the place for strategic purposes. It was now going to be a port of trade, and it would be advisable to reserve that side for residential and trade purposes. Should that side become a prosperous residential quarter, it would be entirely necessary to have the administration extended to this quarter.

Dr. Sze said that when the Chinese delegates insisted upon the exclusion of that part it was not because of any desire on their part to limit the extent of the open port. Simply from the point of view of administrative expenditure, it would be advisable to open, for the time being, the right-hand side only, and later, when circumstances required, to open the left-hand side also.

Baron Shidehara said that should there happen to be Japanese residents or factories, it would not be fair to cause them to remove to the right-hand side.

Dr. Sze said that according to the Chinese information there were no residents at all.

Baron Shidehara said that if there were no residents there ought to be no difficulty for the prospective administration, even if that part were to be included.

Dr. Koo suggested to put in an added formula, in the following sense:

"Should the growth of Tsingtao require it, the Chinese Government will extend the municipal district to the left-hand side as well."

Baron Shidehara asked if there was any practical necessity to exclude that part for the time being.

Dr. Koo said that if that part was not developed and not needed for foreign trade, it would seem better to exclude it. It was simply a question of administrative expediency.

Baron Shidehara said that he did not think the inclusion of that part would cause any inconvenience to the Chinese administration.

Dr. Koo said that if it was included in the open port it would be open for foreign residents. Even if only half a dozen foreigners were to choose to reside in the part, the Chinese administration would be held responsible to extend adequate protection to them.

Baron Shidehara said that under the German régime China had permitted foreign nationals to reside and carry on any pursuits on the left-hand side. He hoped that China would continue this same system, permitting foreign nationals to reside and carry on their trade within the entire area of the leased territory.

Dr. Koo said that the right-hand side was a district of 193 square miles and he thought that it ought to be enough for the foreign residents. It was simply a question of administrative expenses.

Baron Shidehara said that at present the Tsingtao administration would not have to go to any extra expenses. Should that unde-

veloped part become prosperous it would be worth while to make administrative expenditure on that part.

Dr. Sze said that the whole area of Hongkong was 29 square miles. Moreover, the Chinese delegates were ready to give assurance that if the growth of trade required it extension would be made to the left-hand side.

Baron Shidehara said that the Chinese delegates must take into account the fact that formerly China had granted privileges to Germans on the left-hand side of the bay. There would seem to be no good reason to now limit the area to a narrower extent.

Dr. Koo said that he did not know if the Germans used that part for purposes of trade.

Baron Shidehara said that he supposed not, but certainly the Germans had the right to live in that part. It did not make any difference whether they had really made use of that right.

Dr. Koo said that if that part were included foreign nationals would be entitled to take up residence and start business there. If any large number of them were to go there it would be worth while to take proper administrative steps, but if only a handful should choose to go there the administrative expenditure incurred on their account would be out of proportion.

Baron Shidehara said that if foreign nationals were to go to that part it would not be for the purpose of embarrassing the administration, but because of its being a better place to live in. He did not see why China should refuse to extend protection to them on the ground of expenditure.

Dr. Sze said that the left-hand side was a barren stretch of land, and it would be very expensive to develop it. At the best it would become the abode of brigands, robbers, and other undesirable elements.

Baron Shidehara said that if the place was so lacking in wealth there would be no inducement for those robbers and brigands to go there.

Dr. Koo suggested leaving that part aside for the moment.

Baron Shidehara consented.

Dr. Koo said that the Japanese proposal in regard to the opening of suitable cities and towns in Shantung coincided with the intention of the Chinese Government, because it was the purpose of the Chinese Government to select some suitable cities or towns in Shantung for the purpose of foreign trade. But the Japanese delegates would readily see why it was not advisable for the Chinese delegates to enter into any definite arrangement on this point. He would say that the same observation applied to the paragraph in the Japanese proposition with reference to the regulations concerning the opening of those places. In opening those places the Chinese Government would be animated mainly by their desire to promote foreign trade. It was naturally the purpose of the Chinese Government to so formulate the regulations as might be most conducive to the promotion of foreign trade in Shantung. Tsinanfu was a city which had been opened by China on her own initiative. The Chinese delegates were not aware of any well-founded criticism leveled on the regulations under which the city was being administered as a place of foreign trade. The foreign community were well satisfied with the muni ipal

government. He hoped that the Japanese delegates would be satisfied with a declaration which China would make of her own accord along the line indicated above, and that they would not ask an express agreement on a matter which belonged to the domain of internal administration.

Baron Shidehara said that the Japanese delegates were not much concerned about the form of the proposed agreement. What they were concerned about mainly was that actually the Chinese Government should open those places. If they would make a declaration of their own accord, signifying an intention to open suitable cities forthwith in Shantung, the Japanese delegates would not insist upon including the matter in the proposed agreement on Shantung.

Dr. Koo stated that, as had been stated before, it was the intention of the Chinese Government to open such cities and towns. He did not know what more could the Chinese delegates say beyond what had been said.

Baron Shidehara wondered if a declaration could not be given in a more formal way. He did not care about the form of the declaration if only it were a declaration of a little more formal character.

Dr. Koo asked whether it was Baron Shidehara's idea that the formal declaration should be made in the minutes of the conversations.

Baron Shidehara said that what he had in mind was something that could be published.

Dr. Koo said that as he took it Baron Shidehara's observation in that respect applied also to the last paragraph of the Japanese proposal.

Baron Shidehara said that with regard to the last paragraph of Article II of the Japanese proposal he gladly took note of Dr. Koo's statement that just and fair treatment would be accorded to all foreign residents. The purpose prompting that last paragraph was that with the best of intentions on the part of the Chinese Government there might be found some clause in the regulations to be made which might prove prejudicial to the legitimate interests of foreigners. Should any measure taken by the Chinese Government prove injurious to the interests of any foreign nationals, the Government of those nationals would have to lodge protest with the Chinese authorities. It was in order to avoid such unpleasant eventuality that the last paragraph had been inserted in Article II, but the Japanese delegates had no intention of insisting upon any clause which might cause embarrassment to the Chinese Government, and they would be willing to strike out from the terms of the proposed agreement the last clause of paragraph 2. He wondered, however, if it would not be possible for the Chinese Government, as a matter of courtesy, to show the projected regulations to foreign Governments concerned.

Dr. Koo said that he was not prepared to say anything in that respect. Any matter of courtesy might be more appreciated if it came without being asked for. He was glad that the Japanese delegates consented to eliminate the last clause of paragraph 2. As to the opening of suitable cities and towns in Shantung, Baron Shidehara had asked for a declaration which could be given publicly. To meet that desire, the Chinese delegates would make a recommendation to their Government to make such a declaration as would answer the purpose.

Baron Shidehara wondered if it would not be possible that the said declaration should be made at the same time as the conclusion of the agreement which the two delegations proposed to sign here.

Dr. Koo asked if it was Baron Shidehara's idea that a declaration here was preferable.

Baron Shidehara said that it was in the nature of a supplementary declaration and might properly be published at the same time as the main body of the proposed treaty. It happened very often that declarations were attached to treaties.

Dr. Koo said that the Chinese delegates were disposed to make such a declaration at the same time as the proposed agreement, but that they could not see their way to making such declaration part of the agreement.

Baron Shidehara said that a supplementary declaration was not part of the agreement. As would be remembered, the Chinese Government had announced several times their intention to open suitable places in Shantung. The point was that China should now declare her intention to carry out that declaration. The actual fact was that close by the Shantung Railway and the Tsingtao leased territory there were already many Japanese residents. The Japanese Government would like to obtain some assurance that these Japanese would not be expelled from their present places of residence. It was not proposed that that assurance should be contained in the body of the agreement itself, but in a supplementary declaration, so that those Japanese nationals might have a certain sense of assurance.

Dr. Koo said that China was ready to make such a declaration, but she would like to make it as far as possible apart from the agreement.

Baron Shidehara said that it must be made supplementary to the agreement.

Dr. Koo said that the real value of such a declaration rested on the terms, and not necessarily on its being supplementary to the main agreement.

Baron Shidehara said that the case in point was the supplementary declaration made by Japan in connection with the American-Japanese treaty of commerce. That declaration had been signed by Japan alone. It was not part of the treaty and had not gone for ratification. Still, that declaration concerning the Japanese emigration to America went with the said treaty.

Dr. Koo said that the Chinese delegates agreed to draw up a declaration and, if desired, to attach it to the agreement.

Baron Shidehara wondered if the wording of the proposed declaration might be shown to the Japanese delegates beforehand.

Dr. Koo said that he hoped it was not Baron Shidehara's idea to name places to be opened. In making the choice of the cities and towns to be opened the Chinese Government would be guided by actual conditions in Shantung.

Baron Shidehara said that he would not insist upon the inclusion in the declaration of the names of cities and towns to be opened, but he hoped that China would inform Japan what places were going to be opened.

Dr. Koo said that the Chinese delegates were not able to give that information without consulting their Government. That would cause delay. The Japanese delegates apparently had in their mind

some suitable cities and towns. The Chinese delegates had a like idea.

Baron Shidehara again asked whether the wording of the declaration the Chinese delegates were going to make could be shown to his delegation.

Dr. Koo said that the Chinese delegates would draft something and send a copy, unofficially, to the Japanese delegation.

Baron Shidehara signified assent. He added that he hoped it was not the intention or purpose of the Chinese Government to expel Japanese nationals actually living upon the railway.

Dr. Koo asked if the point concerning the extent of the Tsingtao open port was to be taken up again.

Baron Shidehara said that he hoped the Chinese delegates would be able to agree to the Japanese proposal. It was not disadvantageous at all to China to agree to having the entire leased territory opened to foreign trade.

Dr. Koo said that in order to meet the Japanese viewpoint as far as possible the Chinese delegates did not wish to insist upon limiting the area to the Tsingtao side. They would agree to include the left-hand side of the bay as well, but in doing so he hoped that the Japanese Government would take some steps on their side to the end that the Japanese consular authorities would cooperate with the Chinese authorities in exercising special control over the Japanese who might desire to live in that part of the port. So long as that part remained undeveloped it would add to the anxiety of the Chinese authorities if any incidents should happen in that outlying district. It was not the Chinese idea in any way to throw special responsibility upon the Japanese consular authorities, but the Japanese consul would be better informed on the movements of his nationals. It was only asked that he should be good enough to exercise supervision on the movements of Japanese nationals who might desire to go there. General administrative authority as well as responsibility would, of course, remain in the hands of the Chinese authorities.

Baron Shidehara said that the Japanese consul would be glad to do whatever lay in his power by way of watching and supervising the movements of Japanese nationals on the other side of the bay. He wondered whether it was the intention of the Chinese delegates to have that engagement embodied in the proposed agreement on the Shantung question.

Dr. Sze said that if that point was clearly set down in the minutes it would be sufficient. Some Japanese might choose to go to the other side to escape the vigilance of the authorities. They might set up such establishments as gambling houses and the like. Experience at other places indicated such a contingency. That was one of the principal reasons why the Chinese delegates had been proposing to limit the precincts of the open port to the right-hand side of the bay. He did not want to see the left-hand side turned into the home of undesirable establishments.

Baron Shidehara said that the Japanese consul would surely see that the other side of the bay would not be made a base for either illegal or undesirable activities of Japanese nationals.

Dr. Koo said that as to the wording of the first sentence, the original Japanese wording had not been the final form of the agreement. It might be recast to read somewhat like this:

"The Japanese Government hereby relinquishes its claim for the establishment of a Japanese exclusive settlement or of an international settlement in Tsingtao.

"The Chinese Government declares that the former leased territory of Kiaochow will be opened to foreign trade in accordance with the established precedent of self-opened ports. In this port the nationals of treaty powers shall enjoy the same rights of trade and residence as are now enjoyed by them in self-opened ports of China."

He (Dr. Koo) did not think his formula altered the sense of the original at all; only it made the meaning clearer.

Baron Shidehara said that he was not very well aware of the established precedents of the self-opened ports in China, but, considering the great number of foreigners already resident in the leased territory, he desired to place importance on the point that China should institute a special municipal system whereby the foreign community should be given a fair representation in the administration of Tsingtao. The leased territory of Kiaochow was somewhat different from other self-opened ports in that respect. Before the opening of the port there actually were resident a great number of foreigners, and that quite legally. Therefore, in a concrete form, his (Baron Shidehara's) proposal would be somewhat like this:

"The Chinese Government declare that the entire area of the former leased territory of Kiaochow should be opened to foreign trade as a self-opened port, in which the foreign community shall be given a fair representation in the administration of the locality."

Dr. Koo said that he saw Baron Shidehara's point of view, but he did not see in what way an arrangement could successfully be reached in the matter. While the question of establishing a satisfactory system of local government in China was now under study with a view to incorporating it in the general national constitution—that was, at least, the opinion prevailing in China—it would be very inadvisable to commit her to any definite system of local government in any part of China. He was not at all certain just what system would eventually be adopted in China.

Baron Shidehara said that what he had in mind was this: China would eventually adopt a system—as in all countries in Europe and America, as well as Japan—of opening the whole country for residence and trade of foreigners. When that time came, of course, those foreign communities would merge into the Chinese local communities and form a part thereof. Until that time, however, it was hoped that a special municipal system, under which fair representation would be given to the foreign community, would be instituted. That was not intended to be a permanent system; it was only to be a temporary arrangement pending the completion of the general Chinese municipal system. The peculiar municipal system now obtaining in Tientsin, Hankow, Shanghai, and other places would likewise eventually be merged into the Chinese municipal system when China opened the whole country to foreigners. The Chinese delegates would perhaps remember that the treaties between Japan and foreign powers abolishing the foreign settlements in Japan con-

tained provisions to the purpose that those settlements should merge in the general municipal system of Japan.

Dr. Koo inquired whether foreign residents enjoyed franchise in Japan.

Baron Shidehara replied in the negative. By the treaties concluded between Japan and the foreign countries in 1895-96 the foreign settlements in Japan had been abolished. Those treaties contained special provisions about the matter. It was the Japanese subjects only who had voice in the local administration, the foreign powers having agreed to that arrangement in those treaties.

Mr. Koo inquired whether no political franchise was enjoyed by the foreign residents.

Baron Shidehara replied in the negative.

Dr. Koo said that he saw the difficulty in the mind of Baron Shidehara. In view, however, of the present political developments in China in respect of the local government, he doubted if a satisfactory formula could now be arrived at. So far as the administration of the public works, etc., the two delegations had already adopted a formula in which it was agreed that foreign residents in Tsingtao should be given fair representation in the management and maintenance of such public works, etc. To his mind the point now raised had really been settled then. Were they to enter into the intricacies of the organization of the local government he was afraid that their discussions might be going astray. Assurances having already been given with reference to the public works in Tsingtao municipality, he thought that the point raised by Baron Shidehara could very well be left aside at the present moment.

Baron Shidehara pointed out that this was not the first instance in which foreigners were allowed fair representation in the administration of a locality. If he was not mistaken a similar system obtained in Chefoo.

Sir John Jordan said that he thought that was the case in Amoy.

Dr. Koo remarked that there were, generally speaking, two classes of ports opened for the residence and trade of foreign nationals in China, namely, treaty ports and self-opened ports. In some of the treaty ports foreign powers had special rights of participating in the municipal administration. In the present case it had already been agreed that Tsingtao should be a self-opened port. The Japanese delegates had been good enough to relinquish the claim to establish a Japanese or an international settlement. The natural consequence was that it should be turned into a self-opened port. The circumstances of the port, however, being somewhat different from other self-opened ports, the Chinese delegates had agreed, on December 9, that in the maintenance and management of public works foreign communities should be given fair representation. Therefore, the substance of the Japanese wish had already been met. He thought that the matter which principally concerned the foreign residents consisted in the management of such public works as roads, parks, etc.

Baron Shidehara remarked that, inasmuch as the Chinese delegates had already accepted the same principle in respect to public works, the acceptance of the present proposal of the Japanese delegates would merely be a little further extension of that principle. He did not see why serious objection should be interposed in adopting the same principle in the present connection.

Dr. Koo asked what phases of the local administration besides that of public works, such as roads, parks, etc., Baron Shidehara had in view.

Baron Shidehara said that he understood the situation to be this: With regard to public properties the Chinese delegates had given assurance as to the foreign representation, but that referred only to the public works to be handed over to China by Japan. But there were no assurances as to the roads and sanitary institutions to be newly established. Those were the things which would affect the interests of the community greatly.

Dr. Koo said that without committing himself he would say that since foreign representation would be made good in the management and maintenance of public works, the presence of the foreign representatives would very likely be taken advantage of by the Chinese authorities in laying out new roads and equipments. That would be a question only of practical prudence.

Baron Shidehara said that he could not readily enumerate all instances, but there were many similar cases. For instance, if there occurred a prevalence of plague it would be found necessary to adopt certain measures to combat the epidemic. Sanitary arrangements on such an occasion would greatly affect the interests of the foreign community.

Dr. Koo said that assurances had been given with reference to the sanitary equipments which Japan was going to hand over to China. He was afraid that Baron Shidehara was raising a political question upon which they were not free to enter.

Baron Shidehara said that that was not his meaning.

Dr. Koo said that the Japanese delegates had advanced three conditions and the Chinese delegates had met them all. The condition now advanced by Baron Shidehara had not been mentioned in the original proposition.

Baron Shidehara replied that that was quite true, but in the last paragraph proposals were made in relation to the regulations, etc. That clause was intended to cover the present point at issue.

Dr. Koo said that the Japanese delegates had just agreed to strike out that clause.

Baron Shidehara said that, inasmuch as he had agreed to strike out that clause, it had become necessary that some such general clause in relation to the opening of the Tsingtao port should be inserted. It might be arranged that China should declare to open the leased territory of Kiaochow of her own accord and she would be ready to institute fair representation in the municipal administration.

Dr. Koo hoped that Baron Shidehara would see the difficulty of the Chinese delegates. If they agreed to the Japanese suggestion they would be placed in the difficult position of justifying themselves in the face of the Root principle, not to mention any other reasons. He would desire the Japanese delegates to see that the essential point in the negotiation of any kind was for each side to repose confidence in the other. That was the only basis upon which progress could be made. While he appreciated the anxiety on the Japanese part in a question of this kind, the Chinese delegates could not on their part commit themselves for reasons already stated. But in saying this it was not the wish of the Chinese delegates to be understood as having

no desire at all to give adequate protection to foreigners at such an important place as Tsingtao.

Baron Shidehara wondered if the difficulty could not be met by simply providing in the proposed agreement that the Chinese Government should engage to open of its own accord the entire leased territory of Kiaochow as a port of trade and to permit the nationals of all foreign countries freely to reside and carry on commerce, industry, and any other lawful pursuits within such territory, and that they further undertook to respect the vested rights of foreigners. He thought the clause might be left just in that way in the treaty, while it might be recorded in the minutes that there was an understanding that it was the intention of the Chinese Government to formulate regulations for opening the port of Kiaochow, by which special system would be instituted in Kiaochow permitting the foreign community to have fair representation in the administration of the locality. If, in the agreement were said "in accordance with established precedents of self-opened ports, etc.," there would be no room for giving consideration with regard to the desire of Japan as to the representation of the foreign community in matters mentioned by him before.

Dr. Koo hoped that it was not the intention of the Japanese delegates to set up a form of international government on any part of Chinese soil. At least on the Chinese part they hated greatly to take any step which might expose themselves to the criticism that they were acting contrary to the principles just adopted by the conference.

Baron Shidehara said that the leased territory of Kiaochow was entirely different from other ports which had been opened by China of her own accord. Kiaochow had already been opened and foreigners had actually resided and carried on trade and other pursuits.

Dr. Koo said that those rights would be equally enjoyed by foreigners under the Chinese administration as they were now. Their interests would not be placed in jeopardy.

Baron Shidehara inquired what the established precedent of the self-opened ports might be.

Dr. Koo stated, in reply, that he had mentioned Tsinanfu as an example. The administration rested entirely in the hands of the Chinese authorities, which precluded all possibility of foreign concessions or settlements being established in such a place. Since the Japanese delegates had agreed to relinquish the establishment of any settlement, Japanese or international, in Tsingtao, the only model to be followed would be that of self-opened ports.

Baron Shidehara said that, considering the large number of foreign residents in Tsingtao, the precedent of some of the self-opened ports might not give sufficient assurance to foreigners already resident in Tsingtao. There were no general regulations as to self-opened ports in China. They seemed to differ according to different places. It was difficult to say what was actually the established precedent.

Dr. Koo said that if there were objections to the particular phrase, he would be ready to omit the words "established precedent, etc.," but as to the proposition now advanced by Baron Shidehara he felt it difficult to enter into discussion in face of the Root principles, as well as of various difficulties with which the Chinese delegates would have to be confronted.

Sir John Jordan said that he did not quite understand Dr. Koo's meaning. Therefore he desired to ask a question for his own enlightenment; in practice how Dr. Koo proposed to arrange the matter: If fair representation was to be given to the foreign community in relation to the public properties in Tsingtao, how could Dr. Koo consistently refuse foreign representation in the general administration?

Sir John Jordan said that he did not quite understand Dr. Koo's meaning. Therefore he desired to ask a question for his own public works, while at Tsingtao this privilege had been pledged for the foreign community. So it would seem that Tsingtao was not going to be quite a self-opened port. He wondered through what body it was proposed that the foreign community in Tsingtao should participate in the management of the public works.

Baron Shidehara said that the assurance pledged in regard to the public works referred only to those which were going to be handed over to China. It did not include all public works in Tsingtao.

Dr. Koo said that the laying out of new roads would in all probability be regarded as part of the management of existing roads. The two things were so closely interrelated that there was nothing to prevent the foreign community from participating in the management of the new roads. If Baron Shidehara desired to raise the question of the organization of the municipal government, the Chinese delegates could not enter into that discussion and he was afraid that no fruitful conclusion would be reached. He said (speaking to Sir John Jordan) that the present agreement was not going to supersede the agreement of December 9.

Sir John Jordan asked how, in practice, Dr. Koo proposed to coordinate the two things.

Dr. Koo said that in the department of public works of the Tsingtao municipality there would be foreign experts. They would work with the Chinese authorities. It would be quite feasible to make the two provisions operate together.

Baron Shidehara said that it seemed to be the intention of the Chinese delegates to institute a municipal system different at least from that prevailing in Tsinanfu.

Dr. Koo said that the Chinese idea was not to create any peculiar system of municipality.

Baron Shidehara said that a difficult point had been reached. If the Chinese delegates were not disposed to consider fair representation for the foreign community in Tsingtao, Japan would have no assurance whatever.

Dr. Koo said that she had one given on December 9.

Baron Shidehara said that assurances had been given as far as the existing public works were concerned. He hoped that the Chinese delegates would not consider that Japan entertained any idea of interfering in the political situation in Tsingtao. It was purely a question of municipal matters.

Dr. Koo said that he did not know whether he had made the Chinese position sufficiently clear. The Chinese delegates could hardly justify lending themselves to the creation of any exceptional system of municipal government, although, it was true, the conditions of the place to which that system was to be applied were some-

what different from other self-opened ports. They could not very well lend themselves to such a system at the very threshold of establishing a new nation-wide municipal system in China.

Baron Shidehara said that the Chinese delegates could very well explain to their people the wide difference between Tsingtao and other places. There were already a large number of foreigners in Tsingtao. That actual fact must be taken into account. China had formerly practically no part in the administration of Tsingtao. Now she was going to recover full right of sovereignty in that locality. Only in the matter of municipal government Japan desired fair representation for foreign nationals. He did not think that too much was being asked.

Dr. Koo asked what sort of function was desired for the foreign country.

Baron Shidehara said that the function regarded only municipal matters.

Dr. Koo said that the meaning of municipal matters would be very broad.

Baron Shidehara said that they included such matters as the laying out of roads, the taking of sanitary measures in cases of epidemic diseases, etc.

Dr. Koo asked what sort of responsibility the foreign body might owe to the Chinese Government; in what relation it might stand vis-à-vis the Chinese authorities. He wondered if in case they did not discharge their duties properly they might be held to accountability to the Chinese Government. He had grave doubts as to the feasibility of extending foreign representation to the municipal government.

Baron Shidehara said that if the case of foreign settlements in other parts of China were taken the matter seemed to be simple enough. He understood the system of foreign representation at Chefoo was very simple.

Sir John Jordan agreed with Baron Shidehara.

Dr. Koo said that the foreign representation in the case of Chefoo was only voluntary.

Sir John Jordan said that he understood that that was what Baron Shidehara had in mind in the case of Tsingtao.

Baron Shidehara said that it was so. He had only municipal matters in his mind. He understood that in regard to Chefoo regulations had been made in 1909 for the organization of an international committee. Under those regulations Chinese and foreign residents had organized a committee consisting of six foreign and six Chinese nationals. The committee had charge of all matters relating to roads, bridges, drainage, and sanitary matters.

Dr. Sze said Chefoo was such a small port, but that Tsingtao was as large as Washington.

Baron Shidehara suggested that the matter be considered overnight.

Whereupon the meeting adjourned at 6 p. m. until 11 a. m., Friday, January 13, 1922.

WASHINGTON, D. C., *January 12, 1922.*

JANUARY 12, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twenty-third and twenty-fourth meetings of the Chinese and Japanese delegates took place at 11 o'clock a. m. and 3 o'clock p. m., respectively, on January 12, 1922, in the governing board room of the Pan American Union Building. The questions of the extensions of the Shantung Railway, namely, the Kaomi-Hsuchow and Tsinanfu-Shunteh lines and of the Yentai-Weihsien Railway, were discussed and an agreement was reached.

Further, the question of the opening of the leased territory of Kiaochow and of certain cities and towns in Shantung to international trade was taken up and progress was made. The discussion will be continued to-morrow.

The meeting adjourned at 6.30 p. m. to meet at 11 a. m. Friday.

TWENTY-FIFTH MEETING.

The twenty-fifth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 11 o'clock in the morning of Friday, January 13, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. C. Yen, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi, Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van. A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

OPENING OF THE PORT OF TSINGTAO.

Dr. Sze said that the discussion at the last meeting had been on the subject of letting foreign residents of Tsingtao participate in municipal matters, such as those concerning sanitary institutions, roads, etc. As it was considered desirable to allow such participation to the local foreign residents, so long as the extraterritorial rights of foreign nationals still existed in China, the Chinese delegates had drawn up a new formula, which would give clear expression on that point. They felt positive that it would meet with approval, since it consisted of such generous terms. He would therefore invite Dr. Koo, the author of the draft, to read it to the Japanese delegates.

Dr. Koo said that his draft read as follows:

“The Chinese delegation will make a recommendation to the Chinese Government that, pending the enactment of general laws regu-

lating the system of local self-government in China, the Chinese authorities in Tsingtao be instructed to ascertain the views of the foreign residents thereof in such municipal matters as may directly affect their welfare and interests; namely, the levy of taxes for local purposes, adoption of sanitary measures, and appropriations of lands for the building of municipal rights."

Baron Shidehara said that, according to Dr. Koo's draft, the intention of the Chinese delegates appeared to be that a recommendation should be made to the Chinese Government. He wondered whether the Chinese delegation were going to ascertain if the formula would be acceptable to the Peking Government. Would the Japanese delegates be informed of the views of the Peking Government before an agreement was signed in relation to the whole Shantung question?

Dr. Koo said that if it was Baron Shidehara's wish to have that point ascertained, the Chinese delegates would be prepared to communicate with Peking to that end, although their original idea had been just to have the matter recorded in the minutes.

Baron Shidehara said that in any case he and his colleagues would desire to ascertain if the recommendation would be acceptable to the Chinese Government. He added that he had, on his part, prepared a draft somewhat on a similar line as the one just suggested. His draft read as follows:

"It is understood that in the regulations to be formulated by the Chinese Government concerning the opening of Kiaochow as a port of foreign trade, appropriate provisions will be made for permitting foreign communities to have a fair representation in the deliberation of municipal matters in that area, more especially with regard to roads, waterworks, sewage works, and sanitary measures."

Dr. Sze said that the Chinese draft was more liberal, including, as it did, the levying of local taxes. He wondered whether Baron Shidehara desired to have that deleted.

Baron Shidehara said that his draft was not enumerative. It merely gave more important matters for which the representation of the foreign community was desired.

Dr. Koo said that the two drafts practically amounted to the same thing. In his own draft he had purposely avoided the word "representation" because the form of municipal government had not been decided upon, and as the word implied some sort of local election and exercise of franchise. On the other hand, China was prepared, if more acceptable to the Japanese delegates, to insert the words "waterworks and sewage works."

Baron Shidehara said that he understood that, in regard to the existing public works, the Chinese delegates had expressed their readiness to agree that a fair representation should be given to the foreign communities.

Dr. Koo replied that that was the case in regard to the public properties to be handed over by Japan to China.

Baron Shidehara said that he had meant, for instance, roads, parks, sanitary equipment, etc.

Dr. Koo said that the question referred to the management and maintenance of those public properties. It would fully answer the purpose if foreign assistance and participation were to be invited

in the management without the idea of franchise being implied in any way.

Baron Shidehara asked if the present question was not also one of the management of those municipal matters. He could not really see what difference there could be between the two. As to the existing works, the Chinese delegates had agreed to the principle of foreign representation. He wondered why the Chinese delegates could not now agree to similar arrangement in regard to future plans in relation to those municipal matters.

Dr. Koo thought that there was a great difference in the subject matter of the present formulæ and that about which an agreement had already been reached. This involved a much wider scope of action. The making of plans must be different from the execution of plans already determined. Again, there was another obvious difference between his draft and that of Baron Shidehara; namely, in regard to the mention of the levying of local taxes.

Baron Shidehara said that they would naturally be included in the words "municipal matters." He wondered what was practically meant by Dr. Koo's formula. Suppose there were three or four different foreign communities in the locality and each community differed from others, in their opinion, how did the Chinese delegates propose to overcome the difficulties.

Dr. Koo hesitated to express his opinion, because that was a matter of detail.

Baron Shidehara said that the question would practically arise. He thought that in such eventuality the only way would be to call in the representatives of foreign communities and to let them meet the Chinese authorities. In his draft he had used the word "deliberations." He had intended that word to convey the idea that foreigners were to exercise no executive function. They would simply take part in the deliberations, forming a part of deliberative bodies, but without having any executive authority.

Dr. Koo said that the process of ascertaining the views of the foreign community might take the form of a conference. His idea was not to preclude any particular method from being availed of; only he did not decide to limit the method of ascertaining the views of the foreign community. Therefore he preferred the general phraseology.

Baron Shidehara wondered whether it was Dr. Koo's idea practically to propose to ascertain the views of the nationals of various countries through their respective consuls.

Dr. Koo said he had in mind no particular method. He desired to leave some latitude to the judgment of the local authorities, who would work out for themselves the most practical and acceptable method for the purpose.

Baron Shidehara said that he would like to point out another feature of Dr. Koo's draft. He had inserted the phrase "pending the enactment of general laws regulating the system of local self-government in China." Were such laws to be enacted to-morrow, was it Dr. Koo's idea that the proposed understanding would cease to be effective immediately?

Dr. Koo said that his idea was not to leave the impression that a particular form of foreign representation was to be perpetuated. He

desired that there should be some time limit to the proposed understanding in order to prevent any misapprehension that in the formulation of a general law concerning local government China might have her hands tied in respect of this particular part of Chinese soil. Academically Baron Shidehara's surmise was correct, but, at the same time, it was rather much too pessimistic.

Baron Shidehara thought that a more logical way would be to say "pending the abolition of the extraterritorial régime in China."

Dr. Koo said that he was sure that the provisions here did not at all flow from the system of extraterritorial rights. They were two different matters.

Baron Shidehara remarked that if the extraterritorial régime were abolished, foreigners would be permitted to reside anywhere in China. There would no longer be such a special system as that of open ports.

Dr. Koo said that even under the present system of extraterritoriality foreigners did not enjoy the privilege of being consulted in regard to municipal matters, save only in a few foreign settlements and in a certain number of open ports.

Baron Shidehara said that Tsingtao was an example of an open port in the interior of China.

Dr. Koo said that he was not sure. It was a self-opened port. That was his understanding.

Baron Shidehara said that if the words "pending the enactment of general laws regulating the system of local self-government in China" were adopted, that would not be sufficient because that enactment would be a unilateral act of China. There would be no assurance at all for the foreign community.

Dr. Koo said that without wishing to go into the details of the proposed understanding, he would suggest using the words "throughout China," which might appease the anxiety in the mind of Baron Shidehara. It would take a long time for China to complete the enactment of such a general law. Certainly in any case China would not enact laws which could not be put into effect.

Baron Shidehara said that he did not know if he had made his meaning sufficiently clear to Dr. Koo. He would like to point out that even if China enacted laws regulating the local self-government, so long as the system of extraterritoriality continued to exist, China would certainly have difficulty in the levying of taxes without the cooperation of foreign communities.

Dr. Koo said that the two things went together; he meant right and obligation. If the foreign residents in Tsingtao desired to be consulted in such municipal matters as had been described, the expenses to be defrayed by the municipality should, in fairness, be apportioned among those residents also.

Baron Shidehara said that he was not discussing a question of principle but really a question of practice. If certain foreigners refused to pay taxes, there would be no means of enforcing the payment without the cooperation of foreign Governments so long as the system of extraterritoriality remained in force.

Dr. Koo said that so long as the foreign Governments asked for privileges, they should also have to see that their nationals discharged their obligations.

Baron Shidehara said that the abolition of the present system should not be made dependent upon the *enactment* of general laws.

Dr. Koo said that the purpose of his phraseology was that no exceptional form of municipal government should be allowed to perpetuate itself in any part of China when she was trying to formulate a general system of local government applicable to the whole country. He was sure that the Japanese delegates would see the reasonableness of his position.

Baron Shidehara asked whether it was the intention of the Chinese delegates to reserve the right to abrogate the understanding by the simple act of enactment of general laws.

Dr. Koo said that that was not exactly the position taken by the Chinese delegation. China was not going to enact general laws in order to cancel the special system at Tsingtao.

Baron Shidehara said that that point he had understood, but he could not quite perceive why the mere act of enactment should repeal the proposed arrangement as it appeared to be the Chinese idea. He then proposed a new plan, and desired to know how that struck the Chinese delegates:

"It is understood, pending further arrangement to the contrary, that in the administration of the port of Tsingtao the Chinese local authorities will ascertain the views of the foreign residents therein in such municipal matters as may directly affect their welfare and interests."

Dr. Koo desired to arrive at some compromise. However, he still found in this new draft of Baron Shidehara's that the difficulties which stood in their way had not been surmounted. The phrase "pending further arrangements to the contrary" implied that while China desired the general system of local self-government to be applied in various parts of the country, she would not be free to do so unless arrangements were made with foreign powers. To his mind the question involved a political aspect on which he and his colleagues did not feel justified in committing their Government. If, however, the Japanese delegates felt apprehensive that China might make this agreement to-day and enact the general law to-morrow to the end that the agreement should be canceled, he would suggest the addition of two words to the Chinese draft. That insertion would give an assurance that there existed no such danger. After the word "enactment" he would put in "and application." As regarded the attitude of the Chinese Government toward the recommendation the Chinese delegates were to make, the Chinese delegates were prepared to comply with the Japanese desire and to communicate at once with their Government, so that a reply could be had before the final stage of their agreement was reached.

Baron Shidehara said that even if the word "application" were to be inserted, the same difficulty existed. It would be a unilateral act on the part of the Chinese Government only.

Dr. Koo felt certain that Baron Shidehara did not want to give the impression that he desired China to consult Japan in the enactment of the general laws in China.

Baron Shidehara said that in order to meet the Chinese wishes, he would like to propose another draft in which he tried to follow the Chinese draft as closely as possible:

"It is understood that, pending the enactment and application of general laws regulating the system of local self-government in all parts of China, the Chinese authorities in Kiaochow will ascertain the views of the foreign residents therein in such municipal matters as will directly affect their welfare and interests.

The words "foreign community" or "communities" were suggested to take the place of "foreign residents therein."

Dr. Koo said that the word "community" was not desirable, because that suggested that there was some organized body of foreign residents in Tsingtao. That was not the actual situation. He also objected to the phrase "all parts of China." He felt sure that Baron Shidehara did not mean that Tsingtao should be the last place where the general law should be applied, but only that the law should be generally applied in China.

Baron Shidehara said that if just "China" were mentioned there might occur a case where the law was general but was applicable to certain specified regions.

Dr. Koo said that to meet Baron Shidehara's point of view, he would propose to add the word "general" before "application." He would make that suggestion because there were in the body politic of China factions, such as Chahalu and Jehol, which stood on a different and peculiar basis. Unique conditions still prevailed in those districts. Therefore he would use the words "general application," which would mean practically the same thing without tying the hands of the Chinese Government in respect of such special districts.

Baron Shidehara agreed to use that phraseology.

Dr. Koo noticed that Baron Shidehara desired to substitute "Kiaochow" for "Tsingtao." Kiaochowfu was outside the leased territory and there was a Chinese prefect there. What was meant in the Chinese draft was the seat of administration, which was in Tsingtao. The idea was not to limit the area of administration.

Baron Shidehara said that foreign nationals resided in the whole extent of the leased territory. He therefore suggested to make it "foreign residents in the port of Kiaochow."

Dr. Koo inquired whether it was in the mind of Baron Shidehara that the residents in the whole area of the former leased territory of Kiaochow should be included.

Baron Shidehara answered in the affirmative. Then he suggested that the latter part of the draft reading—"namely, the levy of taxes, etc.," should be deleted. He felt that it was not necessary to enumerate all those matters.

Dr. Koo said that the enumeration would have the advantage of excluding any difference of opinion as to what were included under the category and what not. As he had stated, if it was the Japanese wish, he had no objection to adding waterworks and sewage works to the list. What was in his mind was that the cooperation should work smoothly, eliminating the causes of disputes in future.

Baron Shidehara said that if enumeration was made, the result would be that certain municipal matters affecting the interests of foreign communities might be omitted by inference.

Dr. Koo said that some enumeration would be necessary in order to indicate the nature of the municipal matters. However, in order to meet Baron Shidehara's wishes, he would substitute "as" for "namely," so that it would be made clear that there were other

objects, beside the three mentioned in the Chinese formula, to be included in the category.

Baron Shidehara suggested that the word "including" might be used, if it was Dr. Koo's idea to enumerate them as examples.

Dr. Koo accepted.

The two delegations agreed that the phraseology "The Chinese local authorities will ascertain the views of the foreign residents in the former German leased territory of Kiaochow" would take the place of "the Chinese authorities in Kiaochow will ascertain the views of the foreign residents thereof."

Dr. Koo wondered whether Baron Shidehara desired to add waterworks and sewage works to the list.

Baron Shidehara suggested the phrase "and the construction and maintenance of municipal roads, waterworks, and sewage works."

Dr. Koo accepted.

Baron Shidehara remarked that, in regard to the levy of taxes of foreign nationals, it was understood that it should naturally be subject to the consent of the respective foreign Governments. The foreign residents themselves could not give any consent.

Dr. Sze wondered whether in that case Baron Shidehara was not very keen about the improvement of the city.

Baron Shidehara said that was naturally his desire, and foreign Governments would, of course, give their consent.

Dr. Sze said that, if the Chinese authorities were to ascertain the views of foreign Governments in that respect, the levy of taxes could only be effected subject to the consent of 19 or 20 Governments. More latitude of action should be given the municipality of Tsingtao.

Baron Shidehara said that the residents had treaty rights.

Dr. Koo said that the treaties did not give the residents the right to be consulted in municipal matters.

Baron Shidehara said that the consent of various Governments was required, otherwise he wondered how the Chinese authorities could enforce the collection of taxes so long as the system of extraterritoriality lasted.

Dr. Sze observed that if that was the case the result would be that the budget of the Tsingtao government would have to be approved by the twenty-odd Governments.

Baron Shidehara said that it was not the question of budget but of taxes.

Dr. Koo said the taxes formed the important part of the budget.

Baron Shidehara said that the eventuality would be inevitable so long as the system of extraterritoriality continued in force.

Dr. Sze wondered whether foreigners had the privilege of participating in municipal government at foreign settlements; for instance, at Shanghai.

Sir John Jordan said that was certainly the case. Such practice obtained everywhere in China.

Dr. Koo wondered whether foreigners had any voice in regard to the local taxation.

Sir John Jordan said that was the case in regard not only to the municipal taxes but also to national taxes, such as stamp taxes. It was much more so with municipal taxes.

Dr. Sze wondered how the local government could raise its revenue.

Sir John Jordan said that that could be arranged through a friendly understanding between the Chinese Government and the various foreign Governments concerned. That was the case in Hankow also.

Mr. MacMurray desired to make the following statement:

"In regard to the reference to the levy of taxes, I feel bound to say that the presence of Mr. Bell and myself as observers at these conversations is not to be taken as implying assent to the principle that American citizens and their interests are subject to taxation for municipal purposes unless by the express consent of the American Government. I am not prepared to indicate whether or not such consent will be given: I wish only to reserve to my Government entire freedom of action in judging of this question."

Dr. Koo said that that was a matter between foreign nationals and the Chinese Government. He took it that those foreign nationals would always follow the views of their respective Governments. There was, further, no reason for the Governments to forbid the residents of Tsingtao to pay taxes.

Sir John Jordan said that a very great question was involved in the matter. Formerly, under the German régime, the municipality utilized the 20 per cent contribution out of the customs revenue. It would not be fair if the foreign residents in Tsingtao were now to be imposed with heavy taxation without the consent of their Governments. At least so far as the British subjects were concerned, they should not be burdened with taxes except under the general practice which now obtained throughout China.

Baron Shidehara said that if the question of levying of taxes involved such a legal question, he would suggest that the passage at the end of the draft reading, "Namely, the levy of taxes, etc.," should be suppressed altogether.

Dr. Koo said that the claim for the request for consent of various Governments was a big question for China, involving a matter of more or less political character.

Baron Shidehara remarked that the question concerned various Governments, the matter being of general application to the various Governments. Japan was, therefore, not in a position to commit herself without consulting other powers concerned. Therefore the only way would be to delete the last part of the proposed formula.

Dr. Sze remarked that that was a case of representation without taxation.

Baron Shidehara said that the situation was now clear. Japan was not in a position to agree to the Chinese wish without consultation with other Governments. Therefore there were two alternatives: First, to strike out the whole concluding phrase; and, secondly, to strike out the words "the levy of taxes for local purposes," since the Chinese delegates desired to make some enumeration.

Dr. Sze said that if they were to delete the whole concluding passage there was a danger that unreasonable claims might be advanced. The foreign residents might say that a slaughterhouse concerned their welfare and interests.

Baron Shidehara said that that was a matter of common sense.

Dr. Koo said that he need hardly say that he felt quite grateful to the observers for their good remarks by way of facilitating the progress of the conversations, and as a token of his appreciation he

would agree to drop the last part of the draft, but on the understanding that neither Sir John nor Mr. MacMurray had indicated that their respective Governments would refuse to give their consent.

Sir John Jordan and Mr. MacMurray replied in the negative.

Baron Shidehara asked whether it was the intention of the Chinese delegation to recommend the above formula to the Chinese Government.

Dr. Koo said that if it was the desire of the Japanese delegates to hear the definite reply of the Chinese Government he would gladly refer the matter to Peking.

Baron Shidehara said that if the formula was going to be accepted as it was he would not ask the Chinese delegation to communicate it to their Government.

Dr. Koo said that the understanding was not intended to be a clause of the proposed agreement, but a declaration on the part of the Chinese Government. Therefore he would prefer the words "The Chinese Government declares" in lieu of "It is understood" at the beginning of the formula.

The final form agreed upon read as follows:

"The Chinese Government declares that, pending the enactment and the general application of the general laws regulating the system of local self-government in China, the Chinese local authorities will ascertain the views of the foreign residents in the former German leased territory of Kiaochow in such municipal matters as may directly affect their welfare and interests."

Baron Shidehara then remarked that the main clause governing the whole subject matter had not yet been touched. He suggested the adoption of the following formula:

"The Japanese Government declares that it has no intention of seeking the establishment of an exclusive Japanese settlement or of an international settlement in Tsingtao.

"The Chinese Government, on its part, declares that the entire area of the former German leased territory of Kiaochow will be opened to foreign trade; and that foreigners will be permitted freely to reside and to carry on commerce, industry, and other lawful pursuits within such area; and, further, that the vested rights of all foreigners will be respected."

Dr. Koo observed that the question regarding the vested rights had previously (on Dec. 9) been decided upon. He would therefore suggest using the formula adopted at that time if it was Baron Shidehara's idea to incorporate the provision in the present agreement.

Baron Shidehara agreed.

The final agreement read as follows:

"The Japanese Government declares that it has no intention of seeking the establishment of an exclusive Japanese settlement or of an international settlement in Tsingtao.

"The Chinese Government, on its part, declares that the entire area of the former German leased territory of Kiaochow will be opened to foreign trade; and that foreigners will be permitted freely to reside and to carry on commerce, industry, and other lawful pursuits within such area.

"The vested rights lawfully and equitably acquired by foreign nationals in the said area under the German régime, or during the

Japanese military occupation, will be respected. The questions relating to the status and validity of such vested rights shall be arranged by a Sino-Japanese commission.

"The Chinese Government declares that, pending the enactment and the general application of the general laws regulating the system of local self-government in China, the Chinese local authorities will ascertain the views of the foreign residents in the former German leased territory of Kiaochow in such municipal matters as may directly affect their welfare and interests."

SJC-25.]

ANNEX I.

DECEMBER 13, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twenty-fifth meeting of the Chinese and Japanese delegates was held at 11 o'clock a. m. in the governing board room of the Pan American Union Building, and the discussion on the opening of the former German leased territory to foreign trade was discussed, and an agreement was reached.

The meeting adjourned at 1.30 o'clock to meet at 10.30 o'clock Saturday morning, January 14.

TWENTY-SIXTH MEETING.

The twenty-sixth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 10.30 o'clock in the morning of Saturday, January 14, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. C. Yen, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. M. W. Lampson, M. V. O.

VESTED RIGHTS.

Baron Shidehara said that before entering into the discussion of other matters he would like to allude to a minor point which had escaped his attention in the draft adopted the day before in relation to the vested rights. The Chinese delegates would remember that in the first part of the agreement on that question the phrase "vested rights of foreign nationals" had been adopted, but in the latter part

there was a provision that the Sino-Japanese Commission would arrange all questions relating to the status or validity of such vested rights. However, to his mind, the commission should take up only the questions relating to the vested rights acquired by Japanese nationals exclusively.

Dr. Koo said that was a question of interpretation. As a matter of fact, that joint commission would not take up the question of rights acquired by a third party.

Baron Shidehara suggested the addition of the words "of Japanese nationals" so that the meaning would be clear.

Dr. Koo agreed. He then pointed out that there was a small mistake in the agreement as adopted yesterday. The word "and" between "status" and "validity" should read "or," as that was the phraseology adopted on December 9.

Baron Shidehara agreed.

It was further agreed that the last paragraph of the agreement, running "The Chinese Government declares that, pending the enactment," etc., should form an annex of the treaty to be concluded at the end of the present conversations.

The agreement therefore read as follows:

"The Japanese Government declares that it has no intention of seeking the establishment of an exclusive Japanese settlement or of an international settlement in Tsingtao.

"The Chinese Government on its part declares that the entire area of the former German leased territory of Kiaochow will be opened to foreign trade, and that foreigners will be permitted freely to reside and to carry on commerce, industry, and other lawful pursuits within such area.

"The vested rights lawfully and equitably acquired by foreign nationals in the said area under the German régime, or during the Japanese military occupation, will be respected. The questions relating to the status or validity of such vested rights of Japanese nationals shall be arranged by a Sino-Japanese commission.

ANNEX.

"The Chinese Government declares that, pending the enactment and the general application of the general laws regulating the system of local self-government in China, the Chinese local authorities will ascertain the views of the foreign residents in the former German leased territory of Kiaochow in such municipal matters as may directly affect their welfare and interests."

THE RESTITUTION OF THE LEASEHOLD OF KIAOCHOW.

Dr. Sze desired that Baron Shidehara would elucidate to the Chinese delegates the Japanese position in relation to the question of the restitution of the leasehold of Kiaochow to China which formed the subject of paragraph 1 of the Japanese note of September 9, 1921.

Baron Shidehara said that the article was intended to provide that the former German leased territory of Kiaochow should be restored to China, and also that the rights formerly granted to Germany within the so-called neutral zone should be canceled.

Dr. Sze supposed that under that clause Japan would hand over to China those documents and deeds which Japan had received from Germany after the conclusion of peace in Europe.

Baron Shidehara asked whether Dr. Sze meant to refer to the deeds for public land held by the German Government.

Dr. Sze said that what he meant was not only the title deeds of land, but all other sorts of documents. He meant all deeds, archives, registers, plans, etc., which Japan had received from Germany.

Baron Shidehara said that he had just been informed by Mr. Debuchi that when the Germans were withdrawing from Tsingtao they had burned all documents, and only copies of various documents had been handed over to Japan in Berlin.

Dr. Sze said that it would be of great assistance to the Chinese authorities in their administration of Tsingtao if they could obtain the complete archives, registers, etc., in case disputes should arise in the future. Those papers would not be of much use to Japan, but would be of great importance to China.

Baron Shidehara thought that the Japanese authorities would be quite willing to hand over such maps, plans, registers, title deeds, etc., as might be necessary for effecting the transfer of public properties to China.

Dr. Sze said that what he had in mind was such documents as Japan had received under article 158 of the treaty of Versailles, not necessarily only those connected with public properties. It was possible that there might in future be lawsuits and disputes, and it might become necessary to refer to old archives, therefore he thought it would be to the general interest that Chinese authorities should be in possession of all these documents.

Baron Shidehara asked whether it would not be just the same to the Chinese Government if copies of those documents were handed over.

Dr. Sze said that if the Japanese Government did not possess the originals, certified copies would do just the same. And also with reference to the archives during the Japanese administration, he had understood, from the present conversations with the Japanese delegates, that the Japanese military authorities had leased out part of the land which had been held as public property under the German régime. He desired that all documents relating to the Japanese administration of Tsingtao should be handed over.

Baron Shidehara wondered whether Dr. Sze had meant all documents concerning the Japanese administration in Tsingtao.

Dr. Sze thought that the documents relating to the six years of Japanese administration might be of use in case question should arise in the future.

Baron Shidehara said that the Japan authorities would be willing to hand over to the Chinese authorities either the originals or the copies of such documents as might be necessary for the Chinese authorities in taking over the administration of the territory.

Dr. Sze said that he did not desire to appear insistent, but he would like to have not only documents necessary for taking over the administration, but also those necessary for the Chinese administration at Tsingtao.

Baron Shidehara said that he really did not know what documents there existed. As a matter of fact, however, he was sure that the

Japanese authorities would be ready to give up any document that would facilitate Chinese administration at Tsingtao.

Dr. Koo said that he had just drafted the following formula on the point under discussion:

"The Japanese Government agrees to hand over to the Chinese Government at the time of the restitution to China of the former leasehold of Kiaochow all the archives, registers, plans, title deeds, and other documents in the possession of Japan relating to the former leased territory of Kiaochow and to the administration thereof, both under the German régime and during the period of Japanese occupation, as well as to the surrounding 50-kilometer zone around Kiaochow Bay and to the rights originally granted to Germany in other parts of Shantung Province."

Baron Shidehara said that it seemed to him that the points raised were rather matters of detail. Whilst Japan was ready to hand over all those documents necessary in effecting the transfer of the territory to China, he would suggest that upon the coming into force of the agreement now under discussion the Chinese Government should send to Tsingtao a commission authorized to make arrangements with the Japanese authorities relating to the transfer of the administration of Tsingtao as well as of public properties used for administrative purposes. The Chinese commission in meeting the Japanese authorities would be able easily to arrange what documents should be handed over to China.

Dr. Koo said that that was a question of execution but that it would be desirable to embody in the agreement now being discussed a provision on that point.

Baron Shidehara said that just at that moment he did not know what documents relating to the leased territory were in the hands of Japanese authorities in Tsingtao or Tokyo. He could just give the Chinese delegates a general assurance that the documents necessary for effecting the transfer of the territory would be handed over to China.

Dr. Koo said that what the Chinese delegates had wanted was not only the documents necessary for effecting the transfer of the territory, but all other documents that might be needed in the carrying on of the administration.

Baron Shidehara said that all documents necessary for effecting the transfer would be handed over. China was going to be responsible for the administration of Tsingtao after the transfer was effected. If Japan actually had any documents that might be of use to the Chinese authorities they would be handed over, but he could not here undertake that any specific kinds of documents would be handed over, because the Japanese authorities might not possess any documents at all of the specified description.

Dr. Koo said that he saw Baron Shidehara's point of view. Therefore, he would now propose to add "in the possession of the Japanese Government."

Baron Shidehara stated that the question under discussion was not that of a cession of territory. The treaty now under discussion, therefore, should not contain such a provision as would occur in a treaty of cession.

Dr. Koo said that such had not at all been the intention of the Chinese delegates in proposing the insertion of the provision. Their

purpose was simply to facilitate the work of the administration to be set up at Tsingtao.

Dr. Koo continued that, while waiting for his draft to be type-written, he would suggest the discussion of another matter in order to gain time. It related also to the restitution of the leasehold rights of Kiaochow and other rights connected therewith. He presumed that the two delegations had agreed on the principle that the restitution should take place of all rights and privileges which had originally been granted to Germany, as well as those to which Japan might have laid claim during her administration, either within the leased territory and the neutral zone or in other parts of Shantung Province, subject, of course, to such arrangements as should be stipulated in the present agreement. He should be glad to hear the views of the Japanese delegation on that point, although he felt sure that they had agreed in principle.

Baron Shidehara wondered what rights and privileges Dr. Koo had in mind.

Dr. Koo said that the rights granted to Germany by China were not confined within the limits of the leased territory and the neutral zone, but extended outside, such as in the case of the railways, mines, etc. These questions had not been settled yet. But as a general principle he had understood that it was the intention of the Japanese Government to restore all rights originally granted to Germany and those to which Japan had laid claim during her administration, subject only to such arrangement as should be stipulated in the agreement now being discussed. One point which he had in mind referred to the right of preference or option which had been granted to Germany with reference to the employment of experts, the supply of material, and capital. It was true that the Japanese delegates had already made a declaration about this option, but he now wanted to have a comprehensive clause on those points.

Baron Shidehara said he could not think of any other rights which had not been touched upon in the Japanese proposal. He believed that all rights which Germany had possessed in Shantung were covered by the Japanese proposal of adjustment. If there were any other rights they were rights of which the Japanese Government was not aware.

Dr. Koo stated that in paragraph 8 of the Japanese note of September 7, 1921, reference had been made to "other matters" which were yet to be adjusted.

Baron Shidehara said that by the "other matters not mentioned" were meant such matters as those relating to the wireless stations at Tsingtao and Tsinanfu or to cables. The matter relating to post offices was also included, but that question had already been disposed of by the full committee on Pacific and Far Eastern Questions. Such matters had to be adjusted with the transfer of the administration.

Dr. Koo said that, with reference to the wireless stations which had been put up solely for the use of the troops in Tsinanfu and Tsingtao, they would naturally be taken off when those forces were withdrawn. They constituted merely a part of the Japanese military equipment.

Continuing, Dr. Koo said that, to put it in another way, he wondered whether it was not the Japanese intention that after the restitution was effected, Japan would retain only such rights and privileges as should be agreed upon and stipulated for in the present agreement.

Baron Shidehara said that the Chinese delegates would remember that at Paris the Japanese peace delegates had made declarations to the effect that it was not political rights, but only economic privileges, which Japan desired to retain in the Province of Shantung. With reference to those economic privileges, the Japanese proposal had been intended to cover all matters that could be foreseen. He wondered whether the Chinese delegates could think of any matters left out.

Dr. Koo stated that he had no particular rights or concessions in mind. He had simply asked that a provision should be made for a general and precise understanding that, when the restitution of Kiaochow should have been carried out, the rights and privileges of Japan in the former German leased territory and other parts of Shantung would be only those that were clearly stipulated in the agreement, subject, of course, to the general engagements in force between China and Japan. After the restitution was effected, Japan would not have any territorial advantage or any preference or exclusive privilege, whether of political or economic character.

Baron Shidehara said that those rights and privileges were those which China had granted to Germany. China ought therefore to know best. Japan did not know what other rights there existed, apart from those to be covered by the present agreement.

Dr. Koo said that Baron Shidehara's views corresponded with his own. He did not know whether there existed any other rights or privileges except those covered by the conversation. Baron Shidehara's understanding seemed to bear out his (Dr. Koo's) understanding of the situation.

Baron Shidehara inquired whether it was Dr. Koo's intention to have the provision in the form of a treaty, or whether he simply desired to have it recorded in the minutes.

Dr. Koo said that he had had no idea about the form.

Baron Shidehara said that neither Dr. Koo nor himself was aware of any other rights than those touched upon in the Japanese proposal. If there were anything else, they would have to make an arrangement for it now.

Dr. Koo said that a general understanding of that kind would be very useful. Some questions might arise later on which might imply claims involving some rights or privileges not covered here. In other words, they desired to have a general settlement so that it would be a permanent settlement.

Baron Shidehara said that he did not see any necessity for making such a provision. Dr. Koo had said that he had no particular rights or privileges in mind. If neither of them knew of any other rights or privileges, it would be hardly necessary to make such general provision in the treaty.

Dr. Koo said that such provision would be reassuring and promote public confidence and that, although the Chinese delegates had no idea as to the existence of other rights and privileges any more

than the Japanese delegates had, they would naturally like to have this point made clear that when the present restitution was completed Japan would possess rights and privileges only subject to such arrangement as had been and might still be agreed upon between the two delegations.

Baron Shidehara said that it was true that the restitution should be complete, but, so far as the two delegations could see, they knew of no other rights than those already touched upon. Therefore he did not see the necessity for such general provision as had been proposed. He should, of course, be quite ready, if any concrete rights or privileges were in the mind of Dr. Koo, to give consideration to them.

Dr. Koo said that that point should be reserved for the moment and the point raised at the beginning of the meeting should be now taken up, having reference to the draft which had just been type-written.

Baron Shidehara said that he had no objection to having an understanding on that point recorded in the minutes in some such sense:

"The Japanese Government agrees to hand over to the Chinese Government at the time of the restitution of the former German leased territory of Kiaochow such archives, registers, plans, title deeds, and other documents in the possession of Japan, or such certified copies thereof, as may be necessary for the transfer to China of the administration of the said territory, as well as for the administration by China, after such transfer of said territory and of the 50-kilometer zone around the Kiaochow Bay."

He thought that his formula covered the whole point.

Dr. Koo said that apparently Baron Shidehara's idea was to turn over to China only such documents as were necessary for the transfer and the carrying on of the administration at Tsingtao.

Baron Shidehara answered in the affirmative. He thought that it was those documents that were wanted by China. It was clearly impossible that all such documents as Japan might have regarding military matters should be handed over.

Dr. Koo said that he was not thinking of military archives; those might form part of the historic record of Japan. He was afraid, however, that Baron Shidehara's wording was rather limited in scope in regard to the documents to be given up. It was possible that in the course of later administration of Tsingtao questions might arise calling for reference to old documents.

Baron Shidehara said that it seemed to him that that point was covered in his formula by the phrase "after the transfer of the administration," etc.

Dr. Koo suggested that perhaps military documents might be made an exception.

Baron Shidehara said that there might be confidential documents which, while not necessary to China for purposes of administration at Tsingtao, might be needed by Japan. He supposed that China was not asking for those documents just to satisfy her curiosity.

Dr. Koo said that that was not the case, but that human foresight was so limited that what was considered of immediate necessity might happen not to cover some future questions. He suggested a change of phraseology so as to contain all documents relating to the administration.

Baron Shidehara said that that was what was meant by his draft.

Dr. Koo said that the only difficulty appeared to be that Japan would be the sole judge in this matter. Not possessing the documents herself, China might not be in a position to say what were necessary and what were not.

Baron Shidehara said that the Chinese commissioners might very well ask the Japanese authorities whether the latter had not such and such documents in their possession.

Dr. Koo said that the documents were not in the possession of the Chinese and they could not say what were necessary.

Baron Shidehara said that Japan could not hand over *all* documents. There might be some documents which would not be necessary to China. Again, Japan had to keep confidential documents.

Dr. Koo repeated that military documents might be excepted.

Baron Shidehara said that what he had stated applied as well to documents on civil matters.

Dr. Koo suggested adding at the end of his own draft the phrase "it being understood that documents of military or historic interest are not included therein." That was, he understood, what Japan desired to retain and which China did not want to have.

Baron Shidehara said that if China had any doubt about the sincerity of the Japanese authorities, there would be no use making any provision at all. Even if the suggested modifications were to be adopted, the Japanese authorities might well say that such and such documents were of purely military or historic interest.

Dr. Koo said that it was not a question of confidence but merely one of classification.

Baron Shidehara said that the wording of his draft formula practically covered what Dr. Koo had in mind. It appeared that the Chinese delegates were afraid that Japan might conceal documents necessary for the administration of Tsingtao. After that administration had been transferred to China there was no reason whatever for Japan to conceal such documents. The Japanese authorities would certainly hand over to China all documents which would be useful to her. If there were any confidential documents, they would not hand them over anyhow.

Dr. Koo said that he didn't wish to insist upon his point any longer, but taking Baron Shidehara's draft as the basis, he suggested inserting the phrase "those that might be useful" after the phrase "as well as" so that the scope of documents to be handed over might be somewhat widened.

Baron Shidehara consented.

Dr. Koo said he would further propose to say "upon withdrawal from the former German leased territory of Kiaochow" instead of "at the time of the restitution," etc.

Baron Shidehara said he preferred his original wording because that made the meaning clear.

Dr. Koo said that his idea was to make the phrase indicate the time. Moreover, further on in the formula there was a repetition of a similar phrase.

Baron Shidehara agreed to change the same phrase so as to read "upon the transfer to China of the administration, etc."

Dr. Koo said that he supposed it was understood that all the documents Japan had acquired from Germany would be handed over to

China, while it would be left to Japan to sort out on the above principle from those documents which had reference to the Japanese administration of Tsingtao.

Baron Shidehara said that was the meaning. He added that Mr. Debuchi had been at Berlin to take over the Tsingtao documents from Germany and that, so far as he (Mr. Debuchi) remembered, the documents handed over to Japan were only copies of the agreements and treaties signed at Peking between German representatives and the Chinese Government; and, moreover, there were no plans or title deeds of any kind.

Dr. Koo asked how it was about the archives at Tsingtao—those which Japan had obtained direct.

Baron Shidehara said that he presumed there had been documents found at Tsingtao; he understood most of the documents had been burnt and some were left in mutilated form. In withdrawing from Tsingtao, the Germans had tried to destroy all documents as far as possible, so that nothing of practical importance had been left there.

Dr. Koo supposed that, such as they were, all the documents found at Tsingtao would be handed over to China.

Baron Shidehara reminded Dr. Koo that the above understanding was to form part of the minutes and not part of the treaty.

Dr. Koo wondered whether Baron Shidehara had any objection to making it an annex to the treaty.

Baron Shidehara said that it did not look nice to have it attached to the treaty; as he had pointed out, the thing looked so much like a cession of territory.

Dr. Koo agreed to have the understanding recorded in the minutes. The final formula read as follows:

“The Japanese Government agrees to hand over to the Chinese Government upon the transfer to China of the administration of the former German leased territory of Kiaochow such archives, registers, plans, title deeds, and other documents in the possession of Japan, or such certified copies thereof, as may be necessary for the said transfer, as well as those that may be useful for the administration by China, after such transfer of that territory and of the 50-kilometer zone around the Kiaochow Bay.”

Continuing, Dr. Koo said that with reference to the other point discussed a while ago he had a rough draft made.

“Japan agrees to withdraw from the former leased territory of Kiaochow and to transfer to China the administration thereof on the day of the coming into force of the present agreement.

“It is understood that the Japanese Government and its nationals disavow all claims to any territorial advantages or preferential or exclusive rights, privileges, or concessions in respect of the Province of Shantung which constitute an impairment of Chinese sovereignty or which are inconsistent with the principle of equal opportunity for the commerce and industry of all nations, or to any (other) rights or privileges in respect of the former leased territory of Kiaochow and of other parts of Shantung other than those stipulated in the present agreement, or those which are enjoyed by other powers or their nationals.”

Continuing, Dr. Koo said that in elucidating the second paragraph of his draft he might say that the first part of that paragraph was substantially the same as the statement which was contained in

paragraph 4 of the Japanese note of September 7 and which Mr. Hanihara had redeclared at a previous meeting. The second part of the second paragraph referred to rights and privileges other than those stipulated in the present agreement.

Baron Shidehara said that the second paragraph of Dr. Koo's formula appeared to imply that Japan should give assurance regarding Chinese sovereignty and the principle of equal opportunity only in respect of the Shantung Province, while those principles were of general application to all parts of China.

Dr. Koo said that the Chinese delegates simply proposed that clause while the question of Shantung was being adjusted and the final agreement was going to be concluded on that question.

Baron Shidehara said that such a clause might give an impression to those who read the agreement as if Japan was giving such an assurance only in respect of the Province of Shantung. Why should Japan give assurances only in regard to Shantung while the principles in question applied to all parts of China?

Dr. Koo said that it was because the proposed agreement was dealing solely with the Shantung question.

Baron Shidehara said that the matter of those principles had been disposed of by a general committee of the present conference. It seemed hardly necessary to repeat them here. The only point of practical importance to the two delegations in the whole subject matter was the rights and privileges referred to in article 4 of the Japanese note. The general question of the sovereignty of China and of equal opportunities might well be left to the application of the general resolution adopted by the conference.

Dr. Koo said that a provision of the kind proposed by him would be useful because it would reassure public confidence and dissipate misgivings in view of the fact that so many complicated problems had happened respecting the Shantung question. It was proposed merely to reintroduce here the general principles adopted by the Far Eastern committee.

Baron Shidehara said that at the same time such a provision might be taken as an admission on Japan's part that she had so far disregarded those principles in the Province of Shantung.

Dr. Koo said that he didn't think such an impression would necessarily be given, but if it was feared that such an impression might be conveyed alterations might be made in the wording.

Baron Shidehara said that he did not quite see any practical necessity for making such a stipulation. The matter might safely be left to the application of the principles adopted by the conference.

Dr. Koo said that he felt there was practical accord of opinions in the matter. It was understood that after the proposed transfer of the leasehold, etc., was effected and the present agreement on Shantung concluded and put in force Japan would not claim any rights or privileges in respect either to the former German leased territory or to any part of the Shantung Province except such as were stipulated for in the present agreement or in general treaties.

Baron Shidehara wondered how Japan could lay claim to such rights and privileges after the question of Shantung had been disposed of. The Germans had had those rights and privileges which were mentioned in article 4 of the Japanese note, but Japan was now

going to renounce them all. What possible ground could there be for intimating that the Japanese Government might make such claims?

Dr. Koo said that there was no assumption that Japan might do so. It was simply proposed to record the understanding of the two delegations. He understood that in substance the Japanese delegates entertained the same views in regard to the subject matter of his formula. He wondered if his understanding was not correct.

Baron Shidehara said that Japan certainly did not entertain any desire for territorial advantages, etc. But it was entirely another matter whether or not that understanding should be formulated in a treaty of this kind. It should never be intimated that Japan had been committing criminal acts in Shantung.

Dr. Koo said that it was far from his intention; he was ready to alter his original wording if that was in any way to give such an unexpected impression. The whole clause "disavow, etc.," might be entirely omitted and merely the latter part of the second paragraph might be retained. The fact contained in the latter part was not disputed at all between the two delegations.

Baron Shidehara said that he could not think this paragraph placed Japan in the proper light. The proposed change did not help much in that respect. The original wording purported to make Japan disavow her intentions to perform any criminal acts. The changed form seemed to say that Japan was not a criminal.

Dr. Koo asked if Baron Shidehara really thought that such an impression would be conveyed.

Baron Shidehara said that besides there were some points in Dr. Koo's draft which were not quite logical. The phrase "other than those stipulated, etc.," would seem to make it appear as if the present agreement contained stipulations which constituted an impairment of Chinese sovereignty or the principle of equal opportunity.

Dr. Koo said that the word "other" in the phrase "or to any other rights or privileges" was there by mistake.

Baron Shidehara said that he was not aware if there were any privileges to be stipulated for in favor of Japan in the proposed agreement.

Dr. Koo said that it was not the question.

Baron Shidehara said that Dr. Koo's wording, however, expressly stated so.

Dr. Koo said that the first "other" was to be omitted.

Baron Shidehara said that there were no privileges stipulated in the agreement. The opening of Kiaochow could hardly be called a privilege for Japan. He hoped the Chinese delegates would agree to leave the matter to the application of the general principles agreed upon in the conference.

Dr. Koo asked if it was the position of the Japanese delegates that while in substance they had no objection at all to the understanding, the matter was so obvious that it was not necessary to insert it in the agreement.

Baron Shidehara said that it was the Japanese position.

Dr. Koo said that in that case he took it that the Japanese delegates would have no objection to having this recorded in the minutes as representing the understanding of the two delegations. He thought there would be no harm in telling the truth.

Baron Shidehara said that while it was so, people, in reading the minutes of the conversations, would naturally ask what necessity there was for the two Governments to make such a special understanding. It was, of course, merely a statement of fact, but he did not like to have it recorded in any formal terms.

Dr. Koo said that in that case the matter would be simply recorded.

Mr. Hanihara said that it was true there was no harm in stating the truth, but there were many truths and facts which were better not stated. Suppose he and Dr. Koo were to make a contract; neither had any intention to break the pact; that was the fact. But if that fact were to be stated it would be awkward. It was true that Japan had no intention to claim any territorial advantages, but if that fact were made the subject of a formal statement, Japan might be placed in an awkward position. It must not, of course, be supposed that Japan had any intention to encroach upon the sovereignty of China.

Dr. Koo said that as to the breach of contract there generally were provisions attached, but that was neither here nor there; only, Baron Shidehara had affirmed more than once the substance of the understanding.

Baron Shidehara said that if it was asked of him whether he had committed criminal acts or if he was a criminal, he would, of course, say no. When, however, such a negation was embodied in an official record it was an entirely different matter.

Dr. Koo said that it was unfortunate that to his proposal should have been attributed an insinuation which had not really been intended.

Baron Shidehara said that in any case the discussions on this matter would be contained in the minutes of the meeting; that ought to be quite enough for the purpose Dr. Koo had in view. It was not necessary at all to agree to any specified terms of understanding.

Dr. Koo said that seeing the two delegations were really as one in regard to the substance, he should not insist upon the form, because after all substance counted more than form, so he would agree to leave this matter to the minutes of the meeting.

He then would ask if the Japanese delegates had any observation to make on the first paragraph of his draft.

Baron Shidehara said that he certainly had intended to make some observations, but seeing that there was not much time left, he would propose to adjourn until a later occasion.

JAPANESE DELEGATION,

Washington, D. C., January 14, 1922.

SJC-26.]

ANNEX I.

JANUARY 14, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twenty-sixth meeting of the Chinese and Japanese delegates relative to the Shantung question was held in the governing board room of the Pan American Union Building at 10.30 a. m. to-day.

The question of the transfer to China by Japan of the administration of the former German leased territory of Kiaochow and of the surrounding 50-kilometer zone was taken up. The discussion will be continued at 10.30 Monday morning, the meeting to-day adjourning at 1.30 p. m.

TWENTY-SEVENTH MEETING.

The twenty-seventh meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 10.30 o'clock in the morning of Monday, January 16, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries; Mr. Hawklings Yen, Mr. T. C. Yen, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—The Right Hon. Sir John Jordan, G. C. I. E., K. C. B., G. C. M. G.; Mr. W. M. Lampson, M. V. O.

RESTITUTION OF THE LEASEHOLD OF KIAOCHOW.

Baron Shidehara said that last Saturday, when the meeting had adjourned, the Japanese delegates had reserved discussion of paragraph 1 of the Chinese formula regarding the question of the restitution of the leasehold of Kiaochow. In making the reservation they had in mind more especially the date of the transfer to China of the leased territory. In the first place, he desired to make it clear that Japan had absolutely no intention to protract the transfer of the administration of the former leased territory since there would be no advantage or any reason for Japan to do so. The question now before the meeting was how soon it would be practicable to effect such transfer. As was known to the Chinese delegates, the administration which Japan had hitherto conducted in the territory had extended to all functions of government; namely, to the legislative, executive, and judicial fields. For the conduct of such administration there had been established Government offices in various parts of the territory. In effecting the transfer of the administration, the records and archives would naturally have to be handed over to the Chinese authorities. For instance, there might happen to be a number of civil or criminal suits still pending before the court. Those cases would have to be handed over to the Chinese authorities, together with the relevant documents. There also might be a considerable number and quantity of public properties to be handed over, for which an inventory would have to be prepared and signed by both parties. It appeared that such process would naturally take some time and no practical transfer of the

administration could be effected without such process being gone through. Therefore, he would suggest as a practicable way of settling the matter, a formula something like the following:

"Japan shall restore to China the former German leased territory of Kiaochow.

"Immediately upon the coming into force of the present agreement, the Chinese Government shall send to Tsingtao a commission authorized to make arrangements with the Japanese authorities at that port with regard to the transfer of the administration in the said territory and of public property used for administrative purposes.

"Such transfer may be effected in parts and by degrees. It shall be completed as soon as possible, and, in any case, not later than ----- from the date of the coming into force of this agreement."

He hoped that the Chinese delegates would give their consideration to the above.

Dr. Sze said that he had appreciated Baron Shidehara's remarks as to the early transfer of the administration of Kiaochow, and further he appreciated the difficulties attending the actual transfer. He wondered, however, if Baron Shidehara had any objection to modifying the first sentence of his formula so that the 50-kilometer zone would be expressly mentioned. It went without saying that the zone would be included in the transfer.

Baron Shidehara remarked that it might be awkward to add the words "50-kilometer zone" so long as the word "restore" was to be retained. The zone could not be said to be "restored."

Dr. Sze suggested the word "transfer" to take the place of "restore."

Baron Shidehara said that "transfer" would not be pertinent in connection with the leased territory. The leased territory was China's own territory and would be restored but not transferred. So far as the leased territory itself was to be restored, it went without saying that no rights or interests would remain with the Japanese in regard to the 50-kilometer zone.

Dr. Sze thought that the Chinese delegates would accept the paragraph with a small modification. Dr. Koo had suggested the following formula:

"Japan shall restore to China all the leasehold rights concerning the territory of Kiaochow and all the rights relating to the 50-kilometer zone around the Bay of Kiaochow."

He wondered whether Baron Shidehara would find it agreeable.

Baron Shidehara said that really it was a matter of phraseology only. Dr. Koo's formula sounded as if Kiaochow was an independent state.

Dr. Sze inquired whether his understanding was correct that no administrative machinery had been established in the 50-kilometer zone.

Baron Shidehara replied that he had no information on that point. Possibly there might be some offices relating to the railway.

Dr. Sze said that in order to facilitate the progress of the conversation, he would agree to the original wording proposed by Baron Shidehara with the understanding that the statement made by him (Baron Shidehara) in regard to the 50-kilometer zone would be kept

in the minutes. In regard to the second paragraph he would suppose that the general arrangement would be determined here, leaving only detailed matters to be arranged by the commission. He would suggest that that point might be made clearer by adding "detailed" before "arrangement."

Baron Shidehara agreed.

Dr. Sze proposed that there might be added at the end of the paragraph some such word as "etc.," because he thought that the powers intrusted to the commission might be made broader so that matters other than the transfer of the administration and of the public properties could conveniently be handled by that commission. There would be a railway commission, but the commission now under discussion might be formed with powers suggested in paragraph 8 of the Japanese note of September 7, 1920. Other matters, unforeseen now, might come up which could best be intrusted to the commission.

Baron Shidehara said that the Chinese Government could, of course, empower the commission to take up other matters. It was at liberty to incorporate this commission in the railway commission.

Dr. Sze said that the railway commission was a technical commission. His proposal was that there should be only one commission apart from the railway commission. Therefore its functions should be made so wide as to extend to other matters than those enumerated in Baron Shidehara's draft.

Baron Shidehara inquired what other matters were in the mind of Dr. Sze.

Dr. Sze said that questions like the salt fields might come under that head. And any other question might also come up.

Baron Shidehara wondered whether those questions could not be considered as related to the transfer of the administration.

Dr. Sze said that details in regard to the salt question, or other matters, might come up; so he would suggest that some words might be added to the formula to show that the commission had a broad authority.

After a few discussions a phrase in the following sense was agreed upon:

"The transfer of the administration and public properties in the said territory and other matters requiring adjustment."

Dr. Sze then suggested that it would be advisable to have a Japanese commission also. There should be one centralized authority to which the Chinese commission could come for arrangements. With this end in view, he wondered whether a formula, running as follows, would be acceptable to the Japanese delegates:

"The Chinese Government and the Japanese Government will each appoint a commission with power to make detailed arrangements for and effect the transfer of the administration in said territory and of public properties and to settle other matters requiring adjustment. The two commissions for the said purposes shall meet immediately upon the coming into force of the present agreement."

According to Baron Shidehara's draft, it appeared as if the Chinese commission had to go to various Japanese departments for negotiation. His whole purpose was to facilitate matters.

Baron Shidehara suggested the following formula, which was adopted:

"The Governments of Japan and China shall each appoint a commission with powers to make and to carry out detailed arrangements relating to the transfer of the administration and of public property in said territory and to settle other matters equally requiring adjustment.

"For such purposes the Japanese and Chinese commissions shall meet immediately upon the coming into force of the present agreement."

Dr. Sze said, in regard to the third paragraph, the manner of the transfer might be left entirely to the commission. Therefore he suggested that the sentence, "such transfer may be effected in parts and by degrees," should be deleted. He would then alter the next sentence to read: "The work of the *commission* shall be completed as soon as possible, etc."

As to the period of the transfer, he thought some time would naturally be required. During the period of the transfer legal questions might arise, especially in view of the extraterritorial privileges. Legal questions and disputes might occur in relation not only to Japanese nationals but to residents of other nationalities.

Baron Shidehara said that if at the time of the transfer there should be pending a lawsuit in which a foreigner was a defendant the matter would be taken up by the consul of the defendant's country.

Dr. Sze said that what he had in mind was that, for instance, a contract might be made during the period of the transfer. Later a dispute might arise and one of the parties might claim that the case should be handled by the Japanese authorities because the transfer had not been completed at the time the contract had been made. He therefore thought that the period had better be made as short as possible so that there might be fewer legal disputes of this character.

Baron Shidehara said that those things might very easily be arranged between the two commissions. They could decide that certain cases would go to the hands of the Chinese authorities on such and such a date.

Dr. Sze said that he had meant such contracts as might be entered into during the period of the transfer. He did not mean the cases actually pending at that time. A Frenchman and a Chinese might make a contract and the Frenchman might find the Japanese laws more favorable and contend that his case should be handled by the Japanese authorities. It was for the purpose of lessening difficulties of this sort that he had suggested that the period of the transfer should be made as short as possible. He had been alluding to such lawsuits simply because they had casually occurred to his mind.

Baron Shidehara said that, as he had said at the beginning, he desired that the transfer should be expedited so far as it was practicable.

Dr. Sze said that it would perhaps be necessary that records should be copied and collated, and so forth.

Baron Shidehara said that at least an inventory should be made and duly signed.

Dr. Sze suggested that one month might be sufficient.

Baron Shidehara said that he wanted to refer to the home Government as to the period of the transfer.

Dr. Sze said that perhaps the point could wait until Baron Shidehara received a reply. He would like to have the period made as short as possible to avoid local disputes arising, not only between Chinese and Japanese, but in regard to other foreigners.

Baron Shidehara said that he had, of course, no objection to expediting the matter, but he hardly thought one month to be sufficient.

Dr. Sze said that the two delegations would leave that point open.

Baron Shidehara wondered whether, with regard to the taking over of the administration, the Chinese Government, on its side, would be ready to send officials, judges, police forces, etc., at any time.

Dr. Sze said that all those technical matters would form part of the work of the commission.

Baron Shidehara said that even the preparation of an inventory for a Government office would take a week or 10 days.

Dr. Koo said that in order to make the meaning clearer perhaps the phrase "*the said transfer and adjustment* shall be completed as soon as -----" should be substituted for the phrase "*the work of said commission* shall be completed -----"

Baron Shidehara said that such matters as appraisal or valuation would take a longer time than the transfer. Therefore such minor matters might be left for adjustment at later dates. The most important of all was the transfer of the administration. Therefore he would suggest deleting the word "adjustment," leaving only the word "transfer" in the text. If the adjustment could be completed at an earlier date, so much the better.

Dr. Sze suggested that they would, anyhow, await the answer from Tokyo as to the duration of the transfer. The question might be left open.

Baron Shidehara said that it was advisable to settle the transfer as soon as possible and not to make it dependent on the adjustment of minor matters. So he would suggest striking out "adjustment" just tentatively.

Dr. Koo said that it would be left there tentatively, the idea being that if a longer period than a month were required, it be taken off.

Baron Shidehara suggested that it might be left in brackets.

Dr. Sze agreed. The tentative agreement read as follows:

"1. Japan shall restore to China the former German leased territory of Kiaochow.

"2. The Governments of Japan and China shall each appoint a commission with powers to make and to carry out detailed arrangements relating to the transfer of the administration and of public property in said territory and to settle other matters equally requiring adjustment. For such purposes the Japanese and Chinese commissions shall meet immediately upon the coming into force of the present agreement.

"3. The said transfer [and adjustment] shall be completed as soon as possible, and in any case not later than ----- from the date of the coming into force of this agreement."

MINES.

Then the question of the mines was taken up.

Dr. Sze inquired whether Baron Shidehara had anything to say by way of suggestion.

Baron Shidehara said that he would like to propose that the mines which had formerly been appurtenant to the railway should be worked as a joint enterprise of the Chinese and Japanese. Of course, it would not be possible to arrange the exact details of the undertaking here, but he would like, if possible, to have the matter arranged at least in principle.

Dr. Sze inquired whether the Chinese delegates could be given some idea as to the proposed arrangement and the duration of such an arrangement.

Baron Shidehara said that he had no definite plans in mind. It was a matter requiring technical study and examination. It would be advisable for both the delegations to agree that a detailed arrangement should be made later on between competent authorities of the two Governments.

Dr. Sze supposed that the two delegations could touch upon the general principles.

Baron Shidehara inquired what sort of principles was in the mind of Dr. Sze.

Dr. Sze said that the first point was how long such an arrangement would last. And the second point was this: He had no definite knowledge at all about the mines except that, by the agreement of 1911, the Germans had limited their activities to only three mining areas, namely, Fangtse, Tsechuan, and Chinlingchen. They had given up mining rights originally granted for other areas. During the Japanese occupation he understood Japan had somewhat extended mining operations. He had no definite data in what areas Japan had started operation since.

Baron Shidehara inquired whether Dr. Sze could let him know what was the period given for the German mining concessions.

Dr. Sze stated that the original contract with the Germans had been made under abnormal conditions. Since those mines were now being actually worked, the period might be easy to arrange.

Baron Shidehara said that he had no book of reference with him to show the period given for the German concessions. He wondered whether any period had been defined.

Dr. Koo handed over to Baron Shidehara copies of the treaty and agreements concerning the Shantung mines, and stated that, according to his understanding, there was no period mentioned.

Baron Shidehara said that he had thought that there had been special arrangements on that point in regard to the German mining concessions.

Dr. Koo said that the mining concessions were originally granted to Germany by the treaty of 1898; then another agreement was made in 1900. At that time, he understood, the mines formed part of the railway. Another agreement was reached in 1911, which considerably revised the original rights.

Baron Shidehara inquired whether any arrangement had not been made as to the period during which the Germans were to work the mines.

Dr. Koo said not that he recalled.

Baron Shidehara desired to be informed whether the Chinese Government preferred a Government or private enterprise to work the mines. In other words, he would like to be informed whether the Chinese Government would have a joint Japanese-Chinese corporation organized. He was, however, not suggesting that; only he wanted to know if the Chinese Government had any definite plan.

Dr. Koo said that no definite plan had been made. He agreed with Baron Shidehara that only general principles should now be settled, leaving the details to be adjusted locally. Putting aside the question of the period for the moment, it might be advisable now to consider the general principle. The idea of the Chinese delegates was that the mining properties should be handed over to the Chinese Government in order that a Chinese company might be formed in which Japanese and other foreign capitalists, as well as the Chinese themselves, might be permitted to invest in conformity with the Chinese law. He understood, from the Japanese proposition to convert the mines into a joint enterprise, that the Japanese desire had been that Japanese capitalists should have an equal opportunity with others in obtaining or retaining interests in those mines. In substance, the Chinese delegates had no desire to object to the Japanese plan; but as to the form or manner in which the cooperation of the Japanese and Chinese capitalists could be promoted, he thought that it could best be arranged through some such instrumentality as a Chinese corporation.

Baron Shidehara inquired whether the meaning of Dr. Koo's statement was that the mines should be worked not as a Government enterprise but as a private concern.

Dr. Koo said that he had no prejudged opinion on that particular point. He had drafted a formula which might serve as a basis of discussion, the formula reading as follows:

"The Japanese Government will hand over all the mines and mining properties now in occupation or operation by Japan along the Tsingtao-Tsinanfu Railway or in other parts of Shantung to the Chinese Government, which will form a Chinese corporation in which foreign as well as Chinese capitalists may invest, in conformity with Chinese law."

He said that the Chinese law was very liberal on mining enterprises and admitted the maximum foreign investment of 50 per cent in any mining company. That draft, he might add, was modeled upon the formula proposed by the Japanese delegation concerning the enterprises at Tsingtao which were to be operated with Japanese cooperation.

Baron Shidehara wondered whether it would not be possible for the Chinese delegates just to agree upon general principle that these mines should be worked as a Sino-Japanese joint enterprise, in which the Japanese and Chinese should have an equal share and an equal interest. He had been informed that as to the iron mines, especially regarding the sale and export of iron ores, there were certain restrictions in China. He would prefer that the matter should be left for further discussion.

Dr. Koo wondered whether Baron Shidehara meant that he desired to have more time to examine the Chinese draft before making any observation upon it.

Baron Shidehara said that it would not be possible for them at the present meeting to decide upon a precise form of the mining enterprise. The Chinese idea was to form a Chinese corporation—a commercial concern. He could not say whether it would be a good policy to form a Chinese corporation “in conformity with Chinese laws.” He understood that the Chinese Government laid somewhat complicated restrictions upon the working of iron mines and the sale of iron ores, and that regulations relating to iron mines had formed the subject of discussion at Peking. The work of the present conversations would be expedited if it was agreed in principle that the mines in question should be worked as a joint enterprise in which the Chinese would have equal shares.

Dr. Koo said that the purpose of the Chinese draft was to permit foreign participation in those mines, because the Chinese delegates knew that to be the Japanese desire. If it was desired, he and his colleagues would furnish information as to the laws relative to mines, especially iron mines, in China.

Baron Shidehara said that his understanding was that such mining regulations had been the subject of much discussion in Peking and that none of the foreign powers had recognized those regulations.

Dr. Koo inquired whether in that case it would meet Baron Shidehara's approval to take an adjournment now. At the next meeting the Chinese delegates would try to furnish the Japanese delegates information on the Chinese laws concerning foreign participation in the mines. He hoped that the Japanese delegates would, at the same time, be able to furnish information concerning the mines now being operated by the Japanese in Shantung Province.

Baron Shidehara said that the Japanese delegates would certainly furnish the Chinese delegates the information desired relating to the mines actually under Japanese operation. The period was the important point, but that must depend upon the form the undertaking should eventually take—whether a private or Government undertaking or any other form. He was afraid that it would not be practicable to try to decide all those matters here.

THE DEPARTURE OF SIR JOHN JORDAN.

Dr. Sze said that before the adjournment he would like to say a few words to Sir John Jordan on behalf of the Chinese delegation. He sincerely regretted that Sir John, for whom he and his colleagues had entertained not only a high esteem and respect but also affection, had to leave for England to-day. He offered his very best wishes for a happy journey home.

Baron Shidehara said that he cordially shared the sentiments just expressed by Dr. Sze. He heartily wished that Sir John's journey would be a pleasant one. He and his colleagues would miss his presence very much.

Sir John Jordan said that he appreciated greatly what Dr. Sze and Baron Shidehara had said on behalf of their respective delegations. He was very sorry that he had to leave them now for private reasons. He only hoped that an early solution would be reached on the Shantung question. He also hoped that all far eastern questions would be solved and happy and good international relations would prevail in the Far East.

The meeting adjourned at 1 o'clock until 10.30 to-morrow morning.
WASHINGTON, D. C., *January 16, 1922.*

SJC-27.]

JANUARY 16, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twenty-seventh meeting of the Chinese and Japanese delegates was held in the governing board room of the Pan-American Union Building at 10.30 o'clock this morning.

An understanding was reached as to the transfer to China by Japan of the administration of the former leased territory of Kiaochow. The question of the mines was taken up and will be continued at the next meeting.

The meeting adjourned at 1 p. m. until 10.30 to-morrow morning.

TWENTY-EIGHTH MEETING.

The twenty-eighth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 10.30 o'clock in the morning of Tuesday, January 17, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. C. Yen, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

Dr. Koo said that toward the end of yesterday's meeting both delegations had reached the point where the Chinese delegates, on their side, promised to look up laws and regulations relating to iron mines in China, and the Japanese delegates, on their part, undertook to furnish the Chinese delegates with information as to the present situation of the mines operated by the Japanese authorities.

WELCOME TO MR. ASHTON-GWATKIN.

Baron Shidehara said that before proceeding with the discussions of the question of the mines he would say a few words by way of welcoming Mr. Ashton-Gwatkin to be present at the meeting. It was a matter of great regret for them to lose Sir John Jordan, but the loss was now compensated by the presence of Mr. Gwatkin as one of the British observers.

Dr. Koo replied that he heartily associated himself with the remarks just made by Baron Shidehara. He and his colleagues were glad to have Mr. Gwatkin with them.

Mr. Ashton-Gwatkin thanked the delegates for their words of welcome.

MINES.

Baron Shidehara said that he had promised that as much information as was in the possession of the Japanese delegates regarding the present situation of the mines operated by Japan would be furnished. There were three mining districts actually operated by the Japanese authorities, namely, Tsechuan, Fangtse, and Chinlingchen. Those districts had been specified to be exclusively operated by the Schantung Bergbau Gesellschaft under the agreement of 1911. Japan had been operating those mines, but none outside the specified district, nor had she made any extensions of mining areas over and above those defined in the Sino-German agreement. The mines operated by Japan were:

(1) Tsechuan coal-mining district, covering an area of 418 square kilometers. According to the latest statistics, 468,800 tons of coal were produced and the production was yearly increasing.

(2) Fangtse coal-mining district, covering an area of 528 square kilometers. The Germans had concentrated their enterprise on these mining areas, but the results had been very unsatisfactory. But under the Japanese management good results had come to be obtained, especially since 1917, until the daily output now amounted to 400 tons.

(3) The Chinlingchen iron-mining district, covering 283 square kilometers. As soon as the Japanese authorities had taken over the management in 1916 the necessary arrangement for mining iron ore had been made. In 1918 the more important of the mines the operation of which had been started but discontinued by the Germans had been taken up. The surface equipment had also been completed on those mines. The first one was produced in 1919. According to the latest statistics, the output amounted to 178,800 tons. He supposed the figures given here represented yearly production.

The above was the sum and substance of the information in the hands of the Japanese delegation.

Dr. Koo said that the Chinese delegates understood that several mines or several new shafts had been opened since the Japanese had taken possession of the mining properties.

Baron Shidehara said new shafts possibly, but not new mines. The Sino-German agreement of 1911 had contained the district of Chantien, but apparently that district had been abandoned by the Germans. At any rate, it was not being operated by the Japanese.

Dr. Koo said that the Chinese report showed that at several points mining operations were being carried on by Japan beyond the original areas. It was not, however, the intention of the Chinese delegates to take up that point at present. These special points might be arranged locally. On the question of the Chinese mining regulations, especially those concerning iron mines, he would offer the following for the information of the Japanese delegates.

According to the temporary regulations, issued on November 27, 1915, iron mines were made an exception from the general mining regulations. The substance of these temporary regulations concerning iron mining was that those iron mines were placed under the general supervision and control of the Chinese Government; that private people could own iron mines only under the special permission of the ministry of agriculture and commerce; that foreign capital could not be admitted in iron-mining enterprises; that the sale of ore to foreigners required special sanction of the said ministry; and that in granting iron-mine concessions the Chinese Government was to retain the right of priority of buying out the mining interests.

That was the gist of the temporary regulations which were still in force.

He asked whether the Chinese draft was to be taken up as the basis of discussion.

Baron Shidehara said that in the Chinese draft it was proposed that the Chinese Government should form a Chinese corporation in which foreign, as well as Chinese, capitalists might make investment in conformity with the Chinese law. Now, if he understood correctly, there was so far no company act in China which was in actual operation. The status of the Chinese company was somewhat difficult to define. It was not clear what was precisely the status of the Chinese company, whether it was a juridical person in its exact sense or whether it was of a limited or unlimited liability, or what would be the relations between the company and the shareholders. With regard to the Chinese law governing mines, he understood, as he had stated yesterday, that those regulations had formed the subject of discussion in Peking and that so far none of the Governments of the treaty powers had yet recognized the Chinese mining regulations which had been published but were not yet in actual operation. In this situation it was difficult for the Japanese delegates to agree to organize for the mining business in Shantung a Chinese company under the Chinese law. The question seemed to involve many complicated issues which they were not in a position to arrange at this meeting. So he would propose that something of this nature might be agreed upon here:

"The mines of Tsechuan, Fangtse, and Chinlingchen, for which the mining rights were formerly granted by China to German interests, shall be operated jointly by Japan and China on an entirely equal footing.

"The mode and terms of such joint enterprise shall be arranged between the Japanese and Chinese commissions which are to be appointed for that purpose, and which shall meet immediately upon the coming into force of the present agreement."

It would be difficult to go further than that just at present.

Dr. Koo said that while waiting for the typewritten copies of Baron Shidehara's formula to come in he desired to make some remarks in order to elucidate the status of the commercial association in China. China had promulgated regulations defining rights, duties, and status of companies, as well as the rights, duties, and status of individual merchants, and recognizing commercial organizations as legal persons. He had before him company ordinances promulgated by ordinance No. 25 of January 13, 1914, which was

revised by ordinance No. 129 of September 21, 1914. He had also before him ordinance No. 27 of March 2, 1914. He might add that these commercial-association ordinances were modeled in the main on the Japanese Commercial Code in that, for instance, it recognized four kinds of commercial associations. These laws and regulations had so far been working to the satisfaction of foreign as well as Chinese commercial interests. Not long before one of the largest American companies had organized a new company and registered it as a Chinese corporation in conformity with the provisions of these laws and regulations. He was referring to the Du Pont-De Sales Co. There were several other examples. In regard to the mining regulations, both of November 11, 1914, and the temporary regulations of November 27, 1915, that was, of course, a general rule, but so long as they remained in force the Chinese delegates were powerless to act otherwise. The question immediately before the meeting, however, was a particular one, and he hoped that it would not be difficult to reach an agreement on a general principle which should guide settlement of the question. As a point of information he desired to ask whether, according to the Japanese records, the mining districts of Tsechuan, Fangtse, and Chinlingchen were the only mines now being operated by Japan.

Baron Shidehara said it was exactly the case.

Dr. Koo asked if there were any other mines either occupied or operated by Japan.

Mr. Hanihara said that there might possibly be Japanese individuals interested in mines besides those appurtenant to the railway.

Baron Shidehara said that it was entirely a different question. It was not a question of concessions obtained by the Japanese Government.

Dr. Koo said that, so far as those cases were concerned, should individual Japanese mine operators fail to produce permits duly issued by the Chinese Government, the matter could easily be dealt with in accordance with the Chinese law. It was not necessary to include that in the present question.

Baron Shidehara said that what Mr. Hanihara had mentioned referred to those mines for which concessions had been given by the Chinese Government.

Mr. Hanihara said that what he meant was that there might be Japanese individuals who had obtained mining interests directly from the Chinese Government, and that these had no connection whatever with the present question.

Dr. Koo said that those cases could be dealt with according to the Chinese law. The Chinese viewpoint in regard to the main question was that the cooperation of Japanese capital with Chinese capital in this mining enterprise was admissible under the existing Chinese laws with the exception of the iron mines. Of the three mines under consideration, two were coal mines, the Chinlingchen only being an iron mine. This iron mine was comparatively of limited interest and importance from the Japanese point of view, both in regard to its output and to the outlay of capital.

Baron Shidehara said that the iron mine of Chinlingchen was supposed to be a very important one. It was not very successful under the Germans, but it now seemed to be very promising. It was only in 1919 that the first ore was produced.

Dr. Koo asked what its capitalization was according to the Japanese information.

Baron Shidehara said that there were no figures available at present, but, according to the information which he had just offered to the Chinese delegates, the surface equipment of the mines had recently been completed, so it appeared that a great deal of money had been spent for the exploitation of the mines.

Dr. Koo said that as the Chinese delegates understood, however, the Chinlingchen mines formed only a small part compared to the value of the mining properties of the other two districts. The point he had explained was this, that with reference to the coal mines, the Chinese draft would practically give the same result as the Japanese draft, so far as cooperation of Chinese and Japanese capitalists was concerned. As regarded the iron mines of Chinlingchen, he hoped that the Japanese delegates would see the difficult position in which his delegation stood, in view of the temporary regulations concerning iron mines, but the Chinese delegation knew that the Japanese interest was in the output of this mine, so they were prepared to make arrangements concerning the supply of iron ore from that mine.

Baron Shidehara said that he hoped the Chinese delegates would take into consideration the fact that, under the German régime, China had granted concessions to the Germans. There was no question of granting new concessions, but the question was one of the continuation of concessions already granted.

Dr. Koo said that it was true, but that the difficulty was this, that those concessions had been granted to Germans. In order that they might be operated by another party, there had to be a new grant.

Baron Shidehara said that if the new mining regulations stood in the way of the Chinese delegates they could very well say that the Shantung mines should be excluded from the application of these new rules, because some of the treaties China had entered into with foreign powers—for instance, with the United States—provided that China should recast her mining law in such a way as would offer no impediment to the employment of foreign capital and that China should permit the nationals of those foreign powers to carry on mining operations on Chinese soil.

Dr. Koo said that it would be so if the law was recast.

Baron Shidehara said that China undertook to recast her law to attract foreign capital.

Dr. Koo said that it was possible the Chinese Government would desire to attract foreign capital by modifying the mining law, but until that was done the present law remained in force, and the Chinese delegates did not see how they could justify themselves in "putting the cart before the horse."

Baron Shidehara said that the actual status of the Chinese laws and regulations were difficult to determine. A number of these laws and regulations had been published without actually being put into effect. For instance, the mining regulations had been promulgated, but foreign Governments had protested because some of the regulations were inconsistent with their treaty rights. But it was very difficult to know the actual status of these laws and regulations. It was known that these rules had been promulgated, but it was not known whether they were actually in general operation in China.

Dr. Koo said that it was not the Chinese view. So far as the Chinese delegates knew, these rules had not only been promulgated, but put in force. They did not know any instance of mining concessions granted by China contrary to these regulations.

Baron Shidehara said that it might possibly be so, but still it was the fact that none of the powers concerned had recognized those regulations.

Dr. Koo said that the question of the status of the mining regulations, so far as foreign mining interests were concerned, was a general one. He wondered if it would be advisable for the two delegations to try to determine here that general question either one way or the other.

Baron Shidehara said that in his draft he had tried to avoid that issue. It was very difficult to say definitely either one way or the other.

Dr. Koo said that the object of the Chinese draft was to meet the Japanese desire to participate in those mines after they were turned over to China.

Baron Shidehara said he noticed that the Chinese draft was somewhat contradictory in respect of the iron mines. It said that the Japanese Government would hand over the mining properties to the Chinese Government and that the latter would form a Chinese corporation in which Japanese capitalists might invest. Now, the Chinese delegates said that by the general law the employment of foreign capital in iron-mine industry was not permitted.

Dr. Koo said that the latter part of his draft said "in conformity with Chinese law"; that part was, therefore, subject to the laws now in operation in China.

Baron Shidehara said that was exactly the case, and that, therefore, it proposed to exclude the Chinlingchen iron mines from the scope of the joint enterprise.

Dr. Koo said that in view of the special regulations concerning iron mines the Chinese delegates had stated that they were ready to undertake to make arrangements concerning the supply of iron ore from the Chinlingchen mine.

Baron Shidehara said that still that was not permitted by the Chinese law. He wondered if the Chinese delegates meant that a special permission would be given.

Dr. Koo said that the Chinese Government would give such special permission.

Baron Shidehara said that it was difficult for the Japanese delegates to agree to the exclusion of the Chinlingchen mines from the joint enterprise. The Chinese delegates had a very good reason to explain that with regard to those mines concessions had already been granted to the Germans and that there was no question of granting new concessions.

Dr. Koo said that the real situation was this: That the rights formerly given to the Germans were, according to all expectations, to be restored to China. People of China, as well as of all other countries, were looking forward to that result. If in arranging that restoration a new grant of concessions were to be made, contrary to the regulations now in force in China, it would be readily seen how

difficult it would be for the Chinese delegates to explain the matter to the satisfaction of their Government or people.

Baron Shidehara said that he did not think all nations expected that the economic rights in Shantung should be given to China. The Chinese delegates must remember that in Paris it had been agreed by the nations represented there that Japan should retain economic rights. The mining rights were purely economic rights.

Dr. Koo said that it would be difficult to say, however, that those authorities in Paris had intended that China should be called upon to act contrary to her own laws.

Baron Shidehara said that if the legal reasons of the Chinese difficulty were to be emphasized too much it would necessarily lead to complicated issues, which it was the intention of the Japanese delegates to avoid as much as possible.

Dr. Koo hoped that the Japanese delegates would see the difficulty confronting the Chinese delegates in regard particularly to the question of the iron mines in the fact of these regulations of 1915. Besides, with China it was more than a question of this particular mine—it raised the question of the general status of the iron regulations.

Mr. Hanihara asked if the Chinese delegates could not take into consideration the actual facts. The actual fact was that the mines were in the hands of Japan. If the Chinese delegates pressed the matter too hard it necessarily led to the discussion of the Japanese rights in Shantung, which the Japanese delegates desired to avoid as far as possible. It would be different if it were required of China to open a new departure. Dr. Koo had said that the matter would involve a new grant of concessions. It might be made to appear so, but it was not so for all practical intents and purposes. If, however, China agreed, Japan would just retain those concessions as they were at present. He wondered if the Chinese delegates did not think it better to proceed on a compromise and agree here to the plan of joint operation on equal terms and on a fair basis. The details of the plan might be worked out by the Japanese and Chinese commissions. He thought it was a most reasonable and proper way of settling the matter. The Chinese delegates would be able to say that Japan so far conceded as to be willing to operate these mines at present possessed by her as a joint enterprise on equal terms with China. That seemed to be a highly fair proposition from a practical point of view. If the legal side of the question was to be insisted upon, there would be no end.

Dr. Koo said there was a great difference between possession and ownership or title. But that was not the point. The Chinese delegates looked on the matter from a practical point of view. So far as the cooperation of the Japanese and Chinese capitalists was concerned the Chinese delegates had no objection to that at all. But in the face of the regulations now imposed in China the Chinese delegates felt that they had to act in a way not contrary to those regulations. If there were any way for overcoming the difficulty, he and his colleagues would welcome any suggestions from the Japanese delegates.

Mr. Hanihara said that it seemed to him his Chinese friends could well explain the matter to their people. If they insisted upon apply-

ing Chinese regulations to the Shantung mines, Japan would have to insist upon retaining the Chinese mines. It could not be expected that Japan should give up all her interests. There must be some way of adjustment. It was not a question of granting new concessions but merely the continuation, so to speak, of existing concessions. Japan was going a step forward in proposing to make it a joint enterprise. She considered it a concession on her part. The two delegations were meeting there in a friendly spirit and he and his colleagues had no intention of pressing that point too much. What the Japanese delegates desired was a general agreement, for they could not enter into details. They did not have any special far-reaching plan in mind. Their idea was that Japan should retain an interest in those mines on a fair basis.

Dr. Koo said that in this question the Chinese delegates were laboring under a handicap and the Japanese had the advantage over them, because there was no law in Japan against relinquishing the mining rights in Shantung, while the Chinese delegates had those regulations in their face concerning the iron mines. Not that the Chinese delegates did not appreciate the Japanese point of view, but they did feel there was a difficult problem before them which had to be overcome. He would suggest dividing the formula into two parts and leaving aside the question of iron mines for the moment just to facilitate the discussions.

Baron Shidehara said that he was afraid the suggested method might weaken the Japanese position. As Dr. Koo must see, the Japanese delegation placed much weight on the iron mines, but the Chinese mining regulations did not recognize foreign interests in Chinese mining enterprises. Those regulations seemed to be incompatible with the treaty rights of foreign powers, and, as he understood, those foreign powers had protested against them.

Dr. Koo said that he had suggested separation of the subject purely as a temporary step to facilitate the discussion, without commitment on either side of its position.

Baron Shidehara said that he would agree to consider the two coal mines if it was to be understood that the Japanese proposal regarding the Chinlingchen iron mines would not be prejudiced.

Dr. Koo said that, with regard to the coal mines, the Chinese and Japanese drafts were in substance much the same. The Chinese delegates tried to avoid characterization of the joint enterprise and proposed the formula of a Chinese corporation. He hoped that the Japanese delegates would have no serious objection to the Chinese draft in that respect. So far as coal mines were concerned, the Chinese regulations admit foreign capital to the extent of 50 per cent of the whole capital of a mining company. He understood that by "operated jointly by Japan and China on an equal footing" was meant that Japan and China should each have a half interest in the mines.

Baron Shidehara said that, as he had already explained, it was difficult for the Japanese delegates to agree to the plan of Chinese corporation. It did not seem practicable to examine Chinese laws governing associations or corporations, and therefore he would like to avoid that point.

Dr. Koo asked whether it was the Chinese law or the Chinese corporation which Baron Shidehara desired to avoid.

Baron Shidehara said it was both. With regard to the Chinese laws, he had stated that they had formed the subject of protest by treaty powers. With regard to the Chinese corporation, he must say that the matter involved many complicated issues. Before agreeing to the Chinese draft, it was necessary for him to be precisely informed on the details of the Chinese company acts or ordinances. If, however, he understood correctly, those Chinese ordinances had been promulgated, but were not in actual operation. There might be some foreign interests which had formed companies under those laws, but it did not seem that those laws had been in general operation. He hoped that the Chinese delegates would agree to leave for subsequent consideration the question as to whether a commercial corporation should be organized to engage in the mining enterprise. It might be good policy to form a corporation, but for the time being, to expedite the matter, it seemed to him more practicable to make a special arrangement between the two Governments to carry on this enterprise as a *joint Sino-Japanese Government enterprise*, of which arrangement the mode and terms should later be determined by the representatives of the two Governments. It would be better to postpone to a future occasion the question of the organization of a commercial corporation and whether that corporation should be organized under Japanese or Chinese law.

As the Chinese delegates must see, this was a question which involved no political consideration. Again, it was different from the question either of the railway or of the public utilities, in that the general public did not have any interest in the mines. So he hoped that the Chinese delegates would just agree in the present case to a general idea of joint enterprise, leaving the Japanese and Chinese commissions to work out the detailed mode and terms of that joint enterprise. He did not think the matter could be the subject of public misapprehension.

Dr. Sze said that the legal difficulty involved in the question stood in their way. The Chinese delegates had proposed to meet the Japanese point of view as far as the supply of the mining output was concerned.

Baron Shidehara asked if Dr. Sze was not referring again to the question of the Chinlingchen iron mines.

Dr. Sze said that there was also legal difficulty with regard to the coal mines, but Dr. Koo was trying to draft a formula to meet the difficulty in that regard.

Dr. Koo said that, as far as the coal mines were concerned, he hoped the Japanese delegates would accept the Chinese draft, inasmuch as under the present law foreign participation was to be admitted up to 50 per cent of the capital of a mining company.

Baron Shidehara said that, as he had already pointed out before, he did not like any specific reference to be made to the Chinese corporation and the Chinese law. That would create difficulty on the Japanese side. He would avoid that and simply say "joint Sino-Japanese enterprise."

Dr. Koo said that as it stood the Chinese law concerning coal mines permitted foreign participation to the extent of 50 per cent. He did not think the Japanese delegates had any objection to those general mining laws. So far as company laws and the general legal status of traders were concerned the Chinese delegates were not so far

aware of any protest made, but, on the contrary, there were several groups of foreign interests which had formed companies and registered them under those laws. There was another point making it necessary why there should be a Chinese corporation created in conformity with Chinese law; the coal mines of Shantung would stand in such close relations with the Shantung Railway. The railway must depend to a large extent on their output for the fuel used on the line. The mines would be dealing mainly with Chinese people, so the people in charge of the administration of those mines should be Chinese. He should think that all contracts this mining company would enter into for the sale of the coal would have Chinese as parties thereto.

Baron Shidehara said that he did not exactly understand what was the legal obstacle which stood in the way of the Chinese delegation agreeing to the Japanese plan, at least so far as the coal mines were concerned. They had said that the Chinese laws permitted foreign capital to the extent of 50 per cent of the capitalization. The Japanese draft was made exactly in that sense. In the mining operation China would be placed on an entirely equal footing with Japan.

Dr. Koo said that so far as the coal mines were concerned the Chinese delegates were prepared to meet the Japanese point as far as possible by modifying their formula. He would suggest putting after the words "Chinese Government" the phrase "to be conducted on a basis permitting the investment of foreign as well as Chinese capital." He would then suggest adopting the second paragraph of the Japanese draft, excepting the words "joint enterprise," and substituting therefor "such foreign investment." In making those suggestions he did not desire to be understood as modifying the attitude of the Chinese Government concerning the application of the Chinese laws, but, on the other hand, the suggested form would not commit the Japanese views on the subject either.

Baron Shidehara wondered how the following simple formula would strike the Chinese delegates:

"The Japanese Government will hand over to a combination of Chinese and Japanese capital the mines of Chinlingchen, Tsechuan, and Fangtse."

He suggested striking out from the Chinese formula the phrase "all the mines and mining properties, etc.," and mentioning instead the three mining districts. He did not quite like to use the broad terms of the Chinese formula, because the phrase seemed to imply that there were a great many mines in Shantung occupied and operated by Japan. That was not at all the case, there being practically only three mines which were in question. He also modified the second paragraph of the original Japanese formula, as follows:

"The mode and terms of such arrangement shall be determined by the Chinese and Japanese commissions, which are to be appointed for that purpose and which shall meet immediately upon the coming into force of the present agreement."

Dr. Koo said that, in the first place, he had no objection to omitting the general phrase concerning the location of the mines, since it had been stated that there were only three mines. In the second place, he wondered whether, in using the phrase "combination of Chinese and Japanese capital," Baron Shidehara meant that the mining properties should be handed over from the Japanese Govern-

ment directly to this group. He wondered how that could be done. It would be better that these properties should be handed over to the Chinese Government, to be conducted by Chinese and Japanese capitalists. The handing over must be to the Chinese Government first.

Baron Shidehara said that the mines would then become the property of the Chinese Government.

Dr. Koo wondered whether investment of capital would not carry with it some interest in the property. The mines were to be conducted by Chinese and Japanese capitalists.

Baron Shidehara said that his idea had been to turn it over, not to the Chinese Government, to be made part of the Government property, but to a combination of Chinese and Japanese capital. It was entirely different from the case of the Shantung Railway.

Dr. Koo said that the Chinese plan did not mean to turn the mines over to Government enterprise.

Baron Shidehara said that if turned over to the Chinese Government they would naturally become Government properties.

Dr. Koo said that they would be turned over first to the Government in order to be conducted by Chinese and Japanese capitalists.

Baron Shidehara said that the word "conduct" might not be appropriate. In any case, it would mean conducting business only.

Dr. Koo said that that word could have a broad meaning.

Baron Shidehara said that he thought that *conducting* mines might not be a happy phraseology. He had used the word "capital" advisedly in order to leave room for the Governments to conduct the business for the time being. The word "capitalists" (Dr. Koo had suggested using "capitalists" in place of "capital" in Baron Shidehara's draft) implied private concerns.

Dr. Koo said that the word "conduct" might mean both Government or private enterprise, though it might not be good English.

Baron Shidehara said that the point of difference between the Chinese and Japanese drafts was that the Chinese draft provided that the mines should become Chinese Government property first, while the Japanese draft simply proposed that the business should be conducted on the basis of equal share and equal interest.

Dr. Koo said that, in proposing that the mines should be handed over to the Government, he had done so only because he could see no other way. If the mines were to be handed over to a combination of capital, the group would have to go to Tokyo to deal with the Japanese Government.

Baron Shidehara said that that was not the case at all. It would be the commission to be set up that would determine the mode and terms of the combination. The seat of the group could be fixed in Shantung, Tokyo, or Peking.

Dr. Koo said that he had not yet clearly understood Baron Shidehara. He wondered whether the Japanese proposal was to leave open the question whether it should be a Government enterprise or private enterprise, or whether a private enterprise was preferred by Japan.

Baron Shidehara said that on that question he was not quite prepared to express a definite opinion. Perhaps it might be a wise policy to turn the mines over to private enterprise, but for the time

being they might be worked as a joint Chinese-Japanese Government enterprise. In any case, that question could best be decided by the commission. He preferred not to say one way or the other just now. He simply proposed to determine the general principles as to how those mines should be worked in future.

Dr. Koo proposed another formula, reading:

"The Japanese Government will hand over the mines in Shantung to the Chinese Government to be conducted by Chinese and Japanese cooperation whether as a Government or private enterprise."

Baron Shidehara said that Dr. Koo still insisted upon handing the mines over to the Chinese Government. That was the point he had objected to. The Japanese proposal was that the ownership and operation of the mines should rest with a combination of Japanese and Chinese capital.

Dr. Koo said that he could not see who were to hand over the mines to the combination.

Baron Shidehara said it would be the Japanese Government, which was actually operating those mines, that would hand them over to the combination or group.

Dr. Koo wondered whether that group would hold the mines by charter from the Japanese Government.

Baron Shidehara said that that would be effected by the present agreement. The agreement would have the character of a charter. The terms and the conditions of the financial combination would be determined by paragraph 2 of the draft under consideration.

Dr. Sze said that it was now nearly 1 o'clock and he would prefer to study the draft overnight, and see if the Chinese delegates could bring forward new formulae. He hoped the Japanese delegation would in the meantime think the matter over.

Baron Shidehara said that he had no objection to the adjournment of the meeting. He wanted the Chinese delegates to understand that he placed much importance on Chinglingchen mines. Those mines were supposed to be very promising. It would not be possible for Japan to give up those mines, the concessions for which had been given to German interests.

Dr. Sze said that the operation of the mines would naturally be continued, and as to the supply of the iron ore, the Chinese delegation had said that due consideration would be given to the Japanese demand.

Baron Shidehara said that that would not meet the Japanese purpose. Japan had been desiring that an equal share and interest should be retained in those mines.

Dr. Sze said that financial participation would be allowed to Japanese nationals.

Baron Shidehara wondered whether Dr. Sze admitted that financial participation would be allowed in relation to the iron mines.

Dr. Sze said that he had meant the coal mines.

Baron Shidehara thought that they had just been referring to iron mines.

Mr. Hanihara said he believed that in adopting the Japanese formula, the legal difficulty mentioned by the Chinese delegates could be avoided. Matters of detail could be left to subsequent arrangement by the commission, which would work out some suitable scheme.

The meeting took an adjournment at 1 o'clock p. m. to meet tomorrow at 10.30 a. m. if the delegates were disengaged; if not, tomorrow afternoon.

JAPANESE DELEGATION,
Washington, D. C., January 17, 1922.

SJC-28.]

JANUARY 17, 1922.

[For the press.]

Issued by the Chinese and Japanese delegation.

The twenty-eighth meeting of the Chinese and Japanese delegates took place at 10.30 o'clock this morning in the governing board room of the Pan American Union Building.

The question of mines was discussed and the meeting adjourned at 1 p. m. until 10.30 a. m. Wednesday morning.

TWENTY-NINTH MEETING.

The twenty-ninth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 4 o'clock in the afternoon of Wednesday, January 18, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

MINES.

Dr. Sze said that yesterday the conferees had left unfinished the question of the mines. The Chinese delegation had since drawn up a new formula which he hoped Baron Shidehara would find entirely acceptable. Dr. Koo would read it to the baron.

Dr. Koo said that in the drafting of the formula the Chinese delegates had found it necessary to separate the coal mines from the iron mines, for the reason he had stated yesterday and the day before. The formula for the coal mines read as follows:

ANNEX "A."

"The coal mines of Tsechuan and Fangtse, for which the mining rights were formerly granted by China to German interests, shall be

operated by a Chinese company to be formed, in which Japanese capital may participate to an extent not exceeding 50 per cent of its total capital. The mode and terms of such participation shall be determined by the Chinese and Japanese commissions which are to be appointed for that purpose and which shall meet immediately upon the coming into force of the present agreement."

He might point out that the words "the Chinese company" were put in there again because that was the most convenient form to describe who was to operate the mines. It did not necessarily mean a private concern. It might be a company organized by the Government. There was nothing in that draft which would preclude any agreement by the two commissions as to the character which it should assume, whether private or public.

Baron Shidehara asked whether Dr. Koo had any proposition as to the iron mines of Chinlingchen.

Dr. Koo said that it was a very difficult question. The Chinese delegates had tried and tried to find some formula which would at once meet the difficulties confronting the Chinese delegates on the one hand, and on the other hand satisfy the Japanese desire as far as possible. He could not say that the Chinese delegates had altogether succeeded, but, under the circumstances, they had found a formula which he would read to the Japanese delegates, as follows:

ANNEX "B."

"The iron mines of Chinlingchen, for which the mining rights were formerly granted to German interests, shall be handed over to the Chinese Government, which will pay to Japan their appraised value.

"One-half of this amount will be paid to the Japanese Government on the taking over of the said mines and the other half will be paid in installments over an agreed period of years.

"Pending the completion of the said installments the Chinese Government will enter into an arrangement with the Japanese Government concerning the supply to Japan of the iron ore produced by the said mines.

"The duration of the period for the completion of the payment referred to above, the arrangement for the supply of iron ore, and other details shall be determined by the Chinese and Japanese commissions to be appointed for adjusting the details of the question of the coal mines of Tsechuan and Fangtse."

Dr. Koo said that the main idea underlying the draft was to meet the legal difficulties, which appeared to be almost unsurmountable, on the one hand, and on the other to meet the Japanese wishes of having an interest in those iron mines, to the production of which Baron Shidehara attached so much importance. He would add that the draft had been hastily gotten up and was not in the very best form. He hoped, however, that it would serve as the basis upon which they might come to an agreement.

Baron Shidehara said that he was afraid that it would be very difficult to come to an adjustment upon the lines now suggested. Having regard to the history of the matter, he hoped that the Chinese delegates would find a way to treat the three mines as a case entirely independent of the general application of the Chinese

mining regulations. He trusted that Dr. Koo would realize that the Japanese position was this: In the first place, those general mining regulations and the specific regulations with regard to the iron mines had been made the subject of protest by various powers on the ground that they were inconsistent with the terms of various treaties to which China was a party. It was not, therefore, possible for Japan to commit herself to anything which might involve a recognition on her part of the two sets of regulations in question. In the second place, the Japanese delegates believed that the property rights in regard to the mines in question were now in the hands of the Japanese. Japan was now ready to hand over the properties to a joint Sino-Japanese combination. It was a case which had not been contemplated in the Chinese mining regulations, and the case might very well be treated entirely separate from the rest of the mining rights in other parts of China.

He would just tentatively suggest an amendment to the Chinese proposal, taking the three mines together:

"The mines of Tsechuan, Fangtse, and Chinlingchen, for which the mining rights were formerly granted by China to German interests, shall be handed over to a Sino-Japanese combination, in which Chinese and Japanese capital shall stand on an entirely equal footing."

Accordingly, the word "participation" in the second paragraph of the Chinese formula "A." would be changed to "arrangement."

Dr. Koo said that the difficulty appeared to be this: While the Chinese delegates appreciated the fact that the Japanese delegates could not commit themselves on Chinese mining laws and regulations, it would seem to follow that the Chinese delegates should be equally free not to commit themselves upon those laws and regulations. As to the observation of Baron Shidehara, that the property right in those mines was in Japanese hands, he wished not to enter into the legal aspect of the question. It would be needless to say that the Japanese joint of view was not shared by the Chinese delegates. Those rights had, as it was stated in the Chinese draft, been granted to German interests by the treaty of 1898. It had been stated in the preamble of that treaty that it was essentially a commercial treaty, and China had made it clear in her declaration of war against Germany that all treaties would be abrogated. And the abrogation of commercial treaties was not a new thing. The same attitude had been taken by Japan in the Shimonoseki treaty. That was again insisted upon by Japan at Portsmouth. He had brought up that point merely to elucidate the Chinese point of view. He by no means desired to prolong the discussions, but had only referred to that point because Baron Shidehara had referred to the matter.

Reverting to the draft he had prepared, there was one point which might have been overlooked by Baron Shidehara, it not having been made clear in the draft. In the draft, the Chinese delegates had tried their best to meet the Japanese desire to cooperate with the Chinese in the mining enterprise without giving too much conspicuity to that phase in the formula, in view of the present state of public feeling in China. The Chinese delegates had found it necessary to be very careful in drafting the arrangement concerning the question of the mines. Substantially, he ventured to believe the Chinese draft

fully met the Japanese wishes to participate on an equal footing with China.

Baron Shidehara said that, in the first place, he knew that in the Chinese draft there was no specific reference to the existing Chinese mining regulations. But the very reason why the Chinese delegates now proposed to treat iron mines separately from the coal mines was based practically on the Chinese mining regulations. If there were no specific regulations regarding the iron mines, there would be no reason why Chinlingchen mines should be treated separately from the case of Tsechuan and Fangtse. In the second place, it was true that he had referred to the question of the property rights, but it had not been his intention to enter into any detailed discussion of the question of treaties or to dwell on the legal phase of the question at all. He had simply mentioned the matter in order to show that the Japanese proposal was a great concession on Japan's part. Dr. Koo had very properly stated that by the declaration of war commercial treaties existing before the war could be abrogated. That was quite true, but it was equally true that the vested rights, rights already granted to private interests of the enemy, could not be disregarded. The property rights in the mines under discussion had certainly been in the hands of private Germans, and without any special arrangement with the German Government China had no right to confiscate these property rights. Thus a situation had been reached where, unless it was possible to treat the three mines as in the same category and under the same terms, it would be very difficult to reach an agreement. Those mining properties were in Japanese hands, and lawfully so. Japan was now offering to hand over the properties to a Sino-Japanese combination in which Chinese and Japanese capital would stand on an entirely equal footing. It seemed to him a fair adjustment of the mining question. He did not think it would be difficult for the Chinese delegates to agree to a special arrangement regarding the three mines entirely apart from the question of the Chinese mining regulations. In the Japanese revised draft it was simply said that the three mines should be handed over to a Sino-Japanese combination, not a Chinese company. The plan seemed to be fair to both sides.

Dr. Koo asked what would be the status of such a combination.

Baron Shidehara said that there was a number of instances of such Sino-Japanese combinations formed and in actual operation. There was one called the Chinese-Japanese Industrial Development Co.

Dr. Koo asked where the last-named company had been registered.

Baron Shidehara said that he thought the company had been registered both at Peking and Tokyo. The president of the company was a Chinese, as also was one of the two vice presidents.

Dr. Koo asked Baron Shidehara to read the revised draft once more.

Baron Shidehara read the draft. He added that, if he remembered correctly, it had been in the form now proposed by him that the said industrial development company had been organized. It was now a very prosperous company.

Dr. Koo said that it was only an ordinary business company in which the general public took little interest.

Baron Shidehara said that the company was undertaking various business.

Dr. Koo said that as evidence of their genuine spirit of conciliation, the Chinese delegates were prepared to meet the Japanese point by including the question of the iron mines in the same draft as the coal mines. As to the form of the expression, however, for reasons arising, as already explained, from their knowledge of the state of public opinion in China, the Chinese delegates hoped their Japanese colleagues would accept a little modification so as to make Baron Shidehara's formula read as follows:

"The mines of Tsechuan, Fangtse, and Chinlingchen, for which the mining rights were formerly granted by China to Germany, shall be handed over to a company to be formed by a special charter of the Chinese Government, in which the Japanese capital may not exceed the amount of the Chinese capital."

"The mode and terms of such arrangement shall be determined by the Chinese and Japanese commissions which are to be appointed for that purpose, and which shall meet immediately upon the coming into force of the present agreement."

Baron Shidehara said that the Japanese delegates would accept the suggested formula.

Dr. Koo asked if the question of mines could now be considered as settled.

Baron Shidehara answered in the affirmative.

SJC-29.]

JANUARY 18, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The twenty-ninth meeting of the Chinese and Japanese delegates took place at 4 o'clock in the afternoon of January 18, 1922, in the governing board room of the Pan American Union Building.

An agreement was reached on the question of the mines, and the meeting took an adjournment at 5.30 p. m. until 3.30 o'clock tomorrow afternoon.

THIRTIETH MEETING.

The thirtieth meeting, held in governing board room, the Pan American Union Building, Washington, D. C., at 4 o'clock in the afternoon of Thursday, January 19, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. K. Yoshino, Mr. T. Shiratori, Mr. N. Sugiyama.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

CABLES.

Baron Shidehara said that the meeting was now to take up the question of the cables.

Dr. Sze said that he understood that there were two former German cables which they were to discuss—one, the cable from Tsingtao to Chefoo; and the other, the cable from Tsingtao to Shanghai.

Baron Shidehara said that he would try to explain the actual situation of those cables, so far as he knew. While the Germans remained in the leased territory of Kiaochow, they had laid two cables—one from Tsingtao to Chefoo, and the other from Tsingtao to Shanghai. During the war Japan had cut those cables and had laid one from Tsingtao to Sasebo, by making use of portions of the ex-German cables. According to his information there were about 130 miles of ex-German cables which still remained hidden at the bottom of the sea between Chefoo and Tsingtao, as well as between Tsingtao and Shanghai. Such he understood to be the actual situation.

Under the treaty of Versailles the Germans had renounced, in favor of Japan, the two cables radiating from Tsingtao, but Japan was now ready to renounce all title and right to both these cables. At the same time he understood that the Chinese Government had a plan of laying a new cable between Chefoo and Shanghai, and orders for the cable had been placed with a Japanese concern. If that was the case, he hoped that the Chinese Government would see their way to bring in that cable to Tsingtao, so that a Shanghai-Tsingtao-Chefoo line would be owned and operated by the Chinese Government in the interests of the facilities of communications. In regard to the Tsingtao-Sasebo cable, he hoped that the Chinese delegates would be able to agree that the status quo should be maintained. Of course, there was the question of connection with the land line in China to be arranged with the Chinese Government. That question also involved the rights of the Great Northern Co. and the Great Eastern Co., and it was necessary that suitable arrangements should be made with those companies. Just at this moment it was not possible to make detailed arrangements, but he hoped that the Chinese delegates would be able to agree to the maintaining of the status quo of the Tsingtao-Sasebo line. It was to be understood that Japan would renounce her rights in relation to the Tsingtao-Chefoo line as well as to the Tsingtao-Shanghai line.

Dr. Sze inquired whether he had understood correctly that the two cables had been cut, part of them being left in the ocean and part used for the Tsingtao-Sasebo line.

Baron Shidehara replied that 130 miles of the ex-German cable was left in the sea.

Dr. Sze inquired what the length of the Tsingtao-Sasebo line was.

Baron Shidehara said that he understood that the length was 530 miles. He might add that if China was ready to bring in the

Shanghai-Chefoo line to Tsingtao she would, of course, be free to make use of the 130 miles left in the ocean.

Dr. Sze asked where the cables were left.

Baron Shidehara replied that near Shanghai there were about 50 miles, and near Chefoo about 30 miles of the cables. Certain portions of them were left at the bottom of the sea off the coast and they could be easily traced.

Dr. Sze said that, as to the landing in China, on account of agreements between the Great Northern and the Great Eastern Companies, the Chinese delegates could not authorize the landing to any party. According to the agreements, the rights of the companies would terminate in 1930. In that year the Chinese Government would have the whole system as their own. He added that the Chinese delegates took note of Baron Shidehara's statement that Japan would renounce her rights in relation to the two cables in question, as well as the 130 miles still remaining in the ocean.

Baron Shidehara said that, in any case, in regard to the connection of the Tsingtao-Sasebo line, it would be necessary for Japan to make an arrangement with the Chinese Government and the two companies interested.

Dr. Sze said that the Chinese delegates had no instructions so far except that they could not concede those rights on account of the agreements with those two companies. Neither had they any instructions which would authorize them to agree to the construction of the new line by way of Tsingtao. They had to communicate with Peking before making any answer.

Baron Shidehara said that he had been informed that contracts for the supply of the cable from Japan had been concluded during the summer of last year. The cable was now being manufactured in Yokohama.

Dr. Sze said that the Chinese delegates had to refer home on the matter. He desired to know, in order to facilitate the consideration of the question by the Peking Government, how long Japan desired to have that arrangement continue.

Baron Shidehara replied that at present he had no specific idea as to the duration of the arrangement. Such details should be worked out later. It was not necessary to decide all those detailed points now.

Dr. Sze said that, so far as the landing was concerned, the Chinese delegates could not go beyond instructions. In view, however, of the fact that Japan would recognize the rights of China in regard to the cables, and also the rights of the two companies having contracts with China, the Chinese delegates were prepared to agree to the Japanese proposal to have the question discussed in Peking. When the Chinese delegates agreed to it, they did not thereby compromise the Chinese position; they did not mean that the Chinese delegates had agreed to the points raised by Baron Shidehara.

Baron Shidehara presented his formula, as follows, saying that the wording might be improved:

"The Japanese Government renounces all its rights, title, and privileges concerning the submarine cables between Tsingtao and Chefoo, and between Tsingtao and Shanghai, formerly owned and operated by Germany.

"It is understood that the Chinese Government shall, as soon as possible, establish a Chefoo-Tsingtao-Shanghai service and open it for the public.

"The question of landing and operation at Tsingtao of the existing Tsingtao-Sasebo cable shall form a subject of separate arrangement among the parties interested, including the Great Northern Co., and the Eastern Extension Co."

Dr. Sze wondered whether the bringing into Tsingtao of the cable between Chefoo and Shanghai had not been made, in the text, a sort of condition for the transfer of the cables.

Baron Shidehara said that that arrangement was not only in the interest of Japan, but in China's own interest, and also for the benefit of all. China had already had that plan in mind.

Dr. Sze said that he would object to having that point put in the text expressly. The Chinese delegates had no authority to say how the cable should run. It might be that the Chinese Government had already decided to have the line run directly between Shanghai and Chefoo or land at Tsingtao. He and his colleagues were not in a position to say either way. In order to make clear those points it would be better to have the question settled at Peking. As to the landing of the Sasebo line at Tsingtao, China, first of all, could not, in the face of the existing contracts with the cable companies, agree to the Japanese proposal without their knowledge. Secondly, he did not know what the views of Peking were. Therefore the Chinese delegates would have China reserve the right to refuse or grant that right to Japan. He added that the Chinese delegates had drafted a formula something on the line suggested by Baron Shidehara.

Dr. Koo said that he had drafted a plan, which was practically the same as that presented by Baron Shidehara, the only difference being in the form. The draft was as follows:

"Japan relinquishes in favor of China her claim to the former German State submarine cables from Tsingtao to Shanghai and from Tsingtao to Chefoo, with all the right, privileges, and properties attaching thereto, with the exception of those portions of the two said cables which have been utilized by the Japanese Government for the building of the submarine cables from Tsingtao to Sasebo.

"The question concerning the landing privilege of the said Tsingtao-Sasebo cable shall be arranged by Chinese and Japanese commissions, it being understood that China reserves to herself the right to give or withhold consent, in view of the existing contracts to which she is a party."

Baron Shidehara said that he appreciated the difficulty of the Chinese delegates in committing themselves in regard to the Shanghai-Tsingtao-Chefoo service, but it was a question to which the Chinese Government would not in principle have any objection. He wished that the Chinese delegates would at least be able to recommend to the Chinese Government to accept the Japanese proposal.

Dr. Sze said that on account of the jealousy among the different departments as to their jurisdiction, while they were ready to inform Peking of the Japanese wish, they had better not express any views of their own. They themselves, moreover, had no idea as to the necessity of the suggested arrangement.

Baron Shidehara said that he would like to propose a few modifications to the Chinese draft. The idea was to bring the two paragraphs into one, making the whole as simple as possible. The formula read as follows:

"Japan relinquishes in favor of China all her rights, title, and privileges concerning the former German submarine cables between Tsingtao and Chefoo and between Tsingtao and Shanghai, with the exception of those portions of the said two cables which have been utilized by the Japanese Government for the laying of a cable between Tsingtao and Sasebo; it being understood that the question relating to the landing and operation at Tsingtao of the said Tsingtao-Sasebo cable shall be arranged by the Chinese and Japanese commissions in consultation with the Great Northern Co. and the Eastern Extension Co."

Dr. Koo said that while in the first part of the formula reference was made to the "rights, title, and privileges," he thought that it was unnecessary to raise the legal question again. The important thing was the cables themselves.

Baron Shidehara said that the Chinese delegates recognized Japan's claim in their formula.

Dr. Koo said that "claim" was not the rights or title themselves. It represented an *ex parte* view. It was a neutral term, if he might use such a word.

Baron Shidehara thereupon suggested the deletion of "her" preceding "rights, title, etc."

Dr. Koo said that Japan could not renounce something which she did not possess.

Baron Shidehara suggested the formula:

"Japan shall hand over to China the former German submarine cables, etc."

Dr. Koo wondered whether Baron Shidehara meant to hand over those portions left at the bottom of the sea.

Mr. Hanihara said that the suggested formula would be followed by the wording appearing in the Chinese formula, "with all the rights, title, and properties attaching thereto, etc."

Dr. Koo said that he supposed the Japanese delegates shared the Chinese desire to avoid legal implications. He would therefore suggest the following:

"All rights, titles, and privileges concerning the former German cables, etc., are hereby declared to be vested in the Chinese Government, etc."

Baron Shidehara suggested the form:

"Japan shall transfer the former German cables, etc."

Dr. Koo said that that would necessitate the act of transfer. He wondered whether the revised Chinese formula would not be acceptable.

Baron Shidehara suggested a few changes in the Chinese formula, reading:

"Japan declares that all the rights, titles, and privileges, etc., are vested in China, with the exception of those portions of the said two cables which have been utilized by the Japanese Government for the laying of a cable between Tsingtao and Sasebo; it being understood that the question relating to the landing and operation at Tsingtao of the said Tsingtao-Sasebo cable shall be arranged by the Chinese

and Japanese commissions in consultation with the Great Northern Co. and the Eastern Extension Co."

Dr. Koo thought that it would be best to leave out the mention of the two companies, over which they had no control. He asked whether the Japanese delegates had any objection to inserting the reservation Dr. Sze had suggested, which simply described the existing situation.

Baron Shidehara said that if Dr. Koo meant the passage in the Chinese draft reading, "It being understood China reserves to herself the right to give or withhold such consent, etc.," he thought that that point went without saying.

Dr. Koo said in that case the Chinese delegates were ready to omit that passage. He then proposed the substitution of the phrase, "subject to existing contracts to which China is a party," for the concluding phrase of Baron Shidehara's draft, reading "in consultation with the Great Northern Co., etc."

Baron Shidehara agreed.

Dr. Koo considered that the draft was equally acceptable to the Chinese delegates.

The agreement read as follows:

"Japan declares that all the rights, title, and privileges concerning the former German submarine cables between Tsingtao and Chefoo, and between Tsingtao and Shanghai, are vested in China, with the exception of those portions of the said two cables which have been utilized by the Japanese Government for the laying of a cable between Tsingtao and Sasebo; it being understood that the question relating to the landing and operation at Tsingtao of the said Tsingtao-Sasebo cable shall be arranged by the Chinese and Japanese commissions, subject to the terms of the existing contracts to which China is a party."

QUESTION OF THE WIRELESS STATIONS.

Baron Shidehara said that at present there was only one wireless station at Tsingtao. Exactly speaking, there had been three stations at Tsingtao, but the Japanese authorities had withdrawn two of them. Japan had no objection to handing it over to China for a suitable compensation. The actual value of the wireless properties must be ascertained, for which it was proposed that proper compensation should be made by China.

Dr. Koo asked whether it was the high-power station at Ta-Shih-Chang.

Baron Shidehara said that the station was on a hill in Tsingtao and had a power of 12 kilowatts.

Dr. Koo said that it was therefore within the leased territory. He also understood that there was another station at Tsinanfu.

Baron Shidehara answered in the affirmative and said that that station had also to be handed over to China. It was not, of course, possible to arrange details of the transfer. But there was one point to which he hoped the Chinese delegates would agree. It was hoped that the wireless stations at Tsingtao and Tsinanfu might be opened for public use and that Japanese alphabet messages would be accepted at those stations.

Dr. Sze said that it was quite a technical question and that the Chinese delegates could not touch technical details.

Baron Shidehara said that the question was similar to that which had been discussed between the two delegations in connection with the Tsingtao customs.

Dr. Sze said that he remembered a similar question being raised in Manchuria. He and his colleagues were not in a position to discuss such a technical matter. Moreover, he understood that there was a great deal of technical difficulty in allowing Japanese *Kana* messages.

Baron Shidehara said that there could not be much difficulty. The proposal was made with a view to the convenience of the large number of Japanese in Tsingtao.

Dr. Sze said that from the point of view of the efficiency of the service, he thought it better to leave out the question.

Baron Shidehara said that the suggested arrangement would promote the efficiency of the service.

Dr. Sze said that he understood it was the policy of the Chinese Government to attain uniformity of communications as much as possible. If an exception in favor of the Japanese alphabet were to be made, he was afraid that even the Turkish might be coming forward with a similar demand.

Baron Shidehara said that the actual conditions prevailing in the locality must be taken into consideration. The Chinese delegates had practically agreed to the principle involved in the present Japanese proposal in the course of the discussions on the customs of Tsingtao. It was, of course, a technical matter and perhaps it would be useful for China to employ Japanese operators at these stations, at least for the time being. He understood the Chinese wireless operators at Shanghai were being trained in dealing with the Japanese alphabet.

Dr. Sze said that he preferred not to touch such a technical matter. Baron Shidehara suggested leaving the matter for later discussion.

Dr. Sze asked if there were no other receiving stations in any part of Shantung.

Baron Shidehara answered in the negative.

Dr. Sze again asked what the capacity of the Tsinanfu station was.

Baron Shidehara said that its capacity was 70 kilowatts, and that technically it could not be called a high-power station. He would suggest the following formula in regard to the two stations:

"The wireless stations at Tsingtao and Tsinanfu shall be transferred to China on proper terms and for suitable compensation, which shall be arranged between Japanese and Chinese commissions."

Dr. Sze said that when Baron Shidehara said "suitable compensation" that seemed to mean the terms. He wondered if by "terms" was not meant "details."

Baron Shidehara wondered if Dr. Sze meant to suggest striking out "suitable compensation."

Dr. Sze said that the word "terms" seemed to him really to mean "details" of the transfer.

Baron Shidehara wondered what would be Dr. Sze's practical suggestion on that point.

Dr. Sze said that he was asking Dr. Koo to draft on the subject.

Dr. Koo said that he thought a very simple form could be adopted on the present subject. He would suggest the following:

"The Japanese wireless stations at Tsingtao and Tsinanfu shall be transferred, within so many months after the coming into force of the present agreement, to China for a suitable compensation for the value of the stations. The details of such transfer and compensation shall be arranged by Japanese and Chinese commissions."

Baron Shidehara said that he hoped that the Chinese delegates would seriously consider the matter of *Kana* messages. He said that it would not affect the efficiency of the service in the least, but would greatly make for the benefit of the Japanese residing in the locality.

Dr. Sze said that his hesitation in agreeing to the arrangement was due to his lack of knowledge on a matter so technical.

Baron Shidehara said that he was afraid the word "details" in Dr. Koo's formula could hardly be construed as including the question of the *Kana* messages. Again, it was difficult to say anything about the period of the transfer, because, having no technical knowledge, he could not say how many months would be required.

Dr. Sze thought that the transfer of wireless stations was such a simple matter that it would not take long.

Baron Shidehara said that he had just been told by an expert adviser that these Japanese wireless stations were actually for military use, so the period of their transfer would have to be the same as that of the withdrawal of the Japanese troops.

Dr. Koo suggested the wording "upon withdrawal of the Japanese troops."

Baron Shidehara asked how the following formula would be received by the Chinese delegates:

"The Japanese wireless stations at Tsinanfu and Tsingtao shall, upon the withdrawal of the Japanese troops, be transferred to China upon terms which shall be arranged by Japanese and Chinese commissions."

Dr. Koo thought the matter was comparatively a very simple one. There were only two questions involved—compensation and transfer. If it were wished to introduce the matter of *Kana*, the Chinese delegates were willing that the Japanese delegates should make reservation for raising that question when the commissions met to discuss details.

Baron Shidehara read Dr. Koo's formula again and said that it was acceptable to the Japanese delegates. He desired, at the same time, to have it recorded in the minutes that when the details were discussed by the Japanese and Chinese commissions, Japan would have to bring up the question of *Kana* messages. There was no technical knowledge available here, but when the experts of the two countries met they could perhaps arrange the matter.

Dr. Koo said that what little knowledge the Chinese delegates had acquired of that language through the present conversations did not seem to incline them to see any prospect of the matter being accepted by China. The question being a technical one, it would perhaps be best to leave it where it stood. The Japanese delegates desired to have their statement on that point recorded in the minutes. The Chinese delegates had no objection to that.

Baron Shidehara said that when the details of the transfer came up for adjustment, Japan would have to raise that question. The Japanese position in regard to the matter must not be prejudiced by the present agreement. It must not be said that his delegation had abandoned their point.

Dr. Sze said that the whole difficulty with the Chinese delegates was that they were not in a position to say that when that question was raised by Japan it would be accepted by the Chinese commission.

Baron Shidehara said he saw the Chinese position.

Dr. Koo asked whether the proposed draft might be considered as accepted.

Baron Shidehara answered in the affirmative. He added, referring to the matter of *Kana* messages, that he understood Chinese wireless operators in Shanghai were now being trained in Japanese *Kana*.

Dr. Koo said that there were a few more small questions left undecided which would probably be disposed of easily. He thought they should be taken up as soon as possible, and suggested meeting early the next morning.

Baron Shidehara said that there being so many committee meetings to-morrow, he hardly thought it possible to meet, even for a short time.

The meeting adjourned at 6.30 o'clock until 10 o'clock a. m. Saturday.

THE JAPANESE DELEGATION, *January 19, 1922.*

SJC-80.]

JANUARY 19, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

The Chinese and Japanese delegates had their thirtieth meeting at 4 o'clock this afternoon, January 19, 1922, in the governing board room of the Pan American Union Building.

Understandings have been reached on the questions of the former German cables between Tsingtao and Chefoo and between Tsingtao and Shanghai as well as of the wireless stations at Tsinanfu and Tsingtao.

This meeting adjourned at 6.30 o'clock until 11 o'clock Saturday morning.

THIRTY-FIRST MEETING.

The thirty-first meeting, held in the governing board room, the Pan American Union Building, Washington, D. C., at 3.30 o'clock in the afternoon of Monday, January 23, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. C. Yen, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

SALT FIELD.

Mr. Hanihara said that if agreeable to the Chinese delegates, the salt question would be taken up to-day. If he remembered correctly, when the conferees had ended their conversation on the salt question, the Chinese delegates had said that they wanted to take over the salt industry in the coast district of Kiaochow for fair compensation, and with permission to export salt to Japan. The Japanese delegates had promised their Chinese friends to submit the Chinese wishes for the consideration of the Japanese Government. Instructions had recently been received to the effect that the Japanese Government desired to have the salt interests retained in the Japanese hands, and hoped that it would not be impossible for the Chinese Government to reconsider their position. The Japanese delegates appreciated the Chinese desire to include that district in the universal monopoly system of China. In order to harmonize the Japanese and Chinese points of view, a rough draft had been drawn up which he now submitted to the consideration of the Chinese delegates. He hoped they could agree to the formula, which read as follows:

"The Japanese nationals who are actually engaged in the salt industry in the coast district of Kiaochow shall be permitted to continue in the exercise of such industry, subject to the right of China to purchase the industry upon terms to be arranged between the Japanese and Chinese commissions.

"Exportation of a quantity of the salt produced in said district shall also be permitted, whether or not China shall have purchased the industry under the foregoing provisions. The quantity and terms of such exportation shall be arranged between the two commissions.

"The question of the duty or royalty to be imposed upon the salt industry carried on by the Japanese nationals shall be made the subject of a separate arrangement."

He added that the Chinese delegates would observe that the whole Japanese idea was that inasmuch as Japan was going to return the leased territory of Kiaochow to China she would recover the right to give the license for salt industry. Japan only desired to retain such rights as had already been acquired by the Japanese nationals. Japan did not desire to ask for anything hereafter.

Dr. Sze said that while waiting for the Japanese draft to be typewritten he would like to say a few words. The Chinese position in this matter was very clear, whereas the terms of the draft, as he had understood, were rather too vague. They appeared to be contrary to the Chinese principle that Shantung Province should be restored with a clear title. He was afraid that it might be a waste of time to discuss the draft, if his understanding of it was correct.

Mr. Hanihara said that the question was not one of title at all, but simply one of vested rights.

Dr. Sze said that the Chinese position being very clear, he wanted a formula in such definite terms that any man in the street could understand it.

Baron Shidehara asked whether it was the Chinese intention now to define the precise terms of the purchase of the salt industry.

Dr. Sze said that if Mr. Hanihara meant the vested rights he could have used some other terms. If otherwise, all discussion would mean nothing.

Baron Shidehara said that Mr. Hanihara had just suggested that China should, of course, have the liberty to repurchase the rights, but pending the purchase by the Chinese of those interests the Japanese nationals should be permitted to carry on their occupation.

Dr. Sze said that a man in the street who might read the Japanese formula would think that the Japanese were going to stay there permanently. The terms were too vague.

Baron Shidehara wondered whether Dr. Sze wanted to arrange precise terms of the transfer.

Dr. Sze replied that he wanted a formula not in such vague terms.

Baron Shidehara said that he had not been at the meeting when the question had last been discussed. He inquired whether any principle had been suggested by the Chinese delegates to regulate this matter.

Dr. Sze said that the Chinese intention was to purchase the industry forthwith. He wanted a clear-cut arrangement, without any line attached to it. He thought he had better state very candidly that the impression left on his mind by listening to the Japanese formula was not very favorable.

Mr. MacMurray suggested that it might be better to wait for the Japanese draft to be typewritten. He did not himself know what the exact terms were.

Dr. Sze said that he could not conscientiously present to his people anything which was vague and not clear-cut.

Mr. Lampson counseled that it would be better to wait for the draft.

Mr. Hanihara said that he would try to make the meaning of the draft as clear as possible when it came in.

(The typewritten draft came in at this moment.)

Dr. Sze said that after the examination of the draft he would once more say that the instructions from the Chinese Government were that the purchase should be made forthwith. The Japanese draft, therefore, could not be accepted. He must have an arrangement which would be plain to any man in the street. The arrangement on the principle should now be arrived at, the details to be worked out locally. What the Chinese delegates wanted was to clearly state that the purchase would be completed within a certain period, and if there were difficulties in coming to an arrangement locally, the matter should be submitted to arbitration by impartial people.

Mr. Hanihara said that he would explain the Japanese position as embodied in the present draft. As he had stated when the question first came up, the salt industry was deemed to be of great importance to Japan, not only because Japanese nationals were actually engaged in the industry but because Japan wanted to have the salt produced in the district supplied to herself. The Chinese delegates

had said that China had a monopoly system, in which it was desired to have the district incorporated. It was a very proper desire on the Chinese part. The Japanese delegates had stated that the reason for the Japanese proposal was that the Japanese nationals desired to retain their vested interests. So far as his information went, the salt industry of the district had, in the past, been outside of the monopoly system. In 1916, when the Chinese department for the salt gabelle administration had tried to incorporate the salt industry of that part of the country in the general monopoly system, it could not accomplish that object on account of the opposition of the people of the coast district of Shantung, and the district accordingly remained outside the system as before. In view of that fact, the Japanese delegates had thought that it was not unreasonable to ask the Chinese delegates to consider the Japanese proposition. He was not saying this in a spirit of criticism, but in view of what had actually happened in the past it did not seem to him an altogether groundless apprehension. The point was that if the Chinese Government were to take over the industry, he wondered if there might not be trouble again.

Dr. Sze said that China should take care of that herself. That was a Chinese question entirely.

Mr. Hanihara said that that was quite so, but it was of the first importance to Japan that the industry which was now in the hands of the Japanese nationals should continue undisturbed. It was of vital interest to Japan that the Shantung salt should be regularly exported to that country.

Baron Shidehara said that so far as he could see there was nothing in the draft which would prevent the Chinese Government to repurchase the salt industry outright.

Dr. Sze said that if that was the case, he wondered why the Japanese delegates would not have that point unmistakably set down in the draft. China would, of course, like to meet the Japanese wishes as to the exportation. It was dangerous to adopt a vague phraseology.

Baron Shidehara stated that the question was one in which no political meaning was mixed up.

Dr. Sze said that that was a political question, involving as it did, the question of Government monopoly.

Mr. MacMurray said that if he remembered rightly, the Chinese proposition had not at all been incompatible with the present formula. He thought the propositions of the two delegations could be harmonized.

Dr. Sze said that he wanted a clear-cut formula which would be easily understood by any man in the street. There should not be any apprehension that the matter might permanently drag on.

Mr. Lampson said that he saw nothing in the Japanese draft to prevent its harmonizing itself with the Chinese decision. The underlying principle was the same.

Dr. Sze said that Mr. Hanihara had spoken about retaining financial interests.

Mr. Hanihara said that that was not the case. The question was one of the interests of the Japanese nationals. What the Japanese Government was interested in was nothing more nor less than getting the supply of the salt. Nothing more was desired in the future.

Dr. Sze asked whether what Mr. Hanihara had referred to as the desire of the Japanese Government was not the financial interests.

Mr. Hanihara said that that had not been his intention. The Chinese Government was to recover the power of issuing license hereafter. Japan was not going to request of China anything in the future. The only thing she desired was that vested rights should be respected.

Dr. Sze asked Mr. Chao to read the minutes he had been taking.

Mr. Chao said that his notes ran, roughly, as follows:

"Mr. Hanihara said that if he remembered correctly, as China would like to take over the salt industry with the understanding that permission would be given to export salt to Japan, the Japanese delegates had submitted that proposition to the Japanese Government. Now, the Japanese Government had replied it desired that the Japanese nationals should retain interests there * * *."

Dr. Sze said that he had been referring to these words of Mr. Hanihara.

Mr. Hanihara said that what he had said was that the Japanese nationals should continue in their industry.

Dr. Sze said that that was what the Chinese delegates objected to.

Mr. Hanihara said that the Japanese delegates did not object to China purchasing the industry. What he and his colleagues were concerned about was that there should be no interruption in the salt business now being conducted by the Japanese nationals. If China wanted to buy out the business, that was China's own affair. As Baron Shidehara had stated, Japan attached no political importance to the subject.

Baron Shidehara asked whether the Chinese delegates had any counter project.

Dr. Sze said that the Chinese delegates would present their formula very soon. He was glad to have ascertained the point of view of the Japanese delegates on the point. The Chinese intention was that Shantung should be restored to China with a clear title, with no lines attached to it. There should be no misunderstanding anywhere. If there had been any irritation at all in regard to the question, it should now be removed once for all. He should be very sorry if the conferees should not be able to do so, after so many meetings.

Mr. Hanihara said that he had no desire to enter into an argument. He had, however, to point out that Japan had interest in the salt industry to this extent, that that industry now in the hands of the Japanese nationals should not be disturbed or obstructed. Until Japan had gone there and begun to engage in the industry on a large scale, there had not been much of an industry, to speak of, as a source of supply to Japan.

Dr. Sze said that the danger was there. If the industry was larger there was greater danger of smuggling. As to the Japanese desire to have the supply of salt, the Chinese delegates were ready to meet it. They had been asking the Japanese delegates more than once to furnish information as to the amount required by Japan.

Mr. Hanihara said that Japan had no desire to supply salt to the interior of China, in the face of the monopoly system obtaining in that country. The Japanese Government would be more than willing to cooperate with the Chinese Government to stop any illegal procedure.

Dr. Koo said that he thought there was an agreement on the question of principle, the apparent difficulty with the Japanese draft being due to the great scale on which it had been made. He therefore wished to propose another draft which largely followed the Japanese idea but which was in simpler language.

"Whereas the salt industry is a Government monopoly in China, it is agreed that the establishments of Japanese nationals along the coast of Kiaochow Bay which are actually engaged in the said industry are to be purchased by the Chinese Government on payment of their appraised value, and that exportation to Japan of a quantity of salt produced by the said establishments is to be permitted on fair terms. Arrangements for the above purposes, including the transfer of said establishments to the Chinese Government, shall be completed by the Chinese and Japanese commissions within ----- months from the date of this agreement. In case the two commissions can not agree on any point, it shall be referred to arbitration."

He thought that his draft certainly expressed the Chinese idea of the settlement of the question more clearly. He ventured to hope that it did not depart too far from the Japanese point of view.

Baron Shidehara wondered what Dr. Koo precisely meant by the word "establishments."

Dr. Koo said he had thought the phrase "salt industry" more or less vague. According to the Chinese information there were 17 Japanese establishments in the salt industry along the Kiaochow Bay.

Baron Shidehara asked if Dr. Koo used the word more in the sense of companies or firms, and he wondered if it was his idea to purchase those companies.

Dr. Koo said he understood that Japanese were carrying on the salt industry under the name of company or firm.

Baron Shidehara asked what the object of the purchase was.

Dr. Koo inquired if there were companies which were engaged in other business as well as in the salt industry.

Baron Shidehara wondered how a company could be bought.

Dr. Koo said that it was the business which was to be bought. The idea was that after the purchase had been completed there would be no Japanese nationals engaged in the salt business. He should be happy if Baron Shidehara could suggest a better word, for he was not himself satisfied with the term "establishment."

Mr. MacMurray suggested the word "works."

Baron Shidehara wondered if the word "interests" could not be used.

Dr. Koo asked if Baron Shidehara's meaning was that when the salt business had been bought out the company might go into some other business.

Baron Shidehara said he had no such deep meaning.

Dr. Koo said that the term "establishments" was intended to cover all phases of the business, such as buildings, machinery, etc.

Baron Shidehara thought the word "interests" might be the correct term to use. If the interests of the Japanese nationals in the salt industry on the Kiaochow Bay were purchased by China, there would be no more Japanese nationals engaged in the industry.

Dr. Koo wondered what that word covered. He wasn't clear about the scope to be covered by that word.

Baron Shidehara thought it implied all equipment and also the right to exercise that industry. He thought the word was broader in meaning and covered everything. If China bought out the interests, there would be nothing left. If the word "interests" were to be used, the phrase "appraised value" ought to be "compensation." "Value" was all right for property, but not for rights or interests. He would, therefore, suggest modifying the Chinese draft as follows:

"It is agreed that the interests of the Japanese nationals in the salt industry along the Kiaochow Bay are to be purchased by the Chinese Government on payment of fair compensation, etc."

He was not sure if the word "establishments" could cover the cases of companies and private individuals as well as organized companies. He understood there were Japanese private individuals engaged in the salt industry. It would, therefore, seem better to say Japanese nationals.

Dr. Koo asked if Baron Shidehara proposed to change that word only in the first part of the Chinese draft.

Baron Shidehara said that he would have the same word in the latter part of the first sentence also changed and made "industry." The meaning was that when China bought the "establishments" the export of salt to Japan would be rendered impossible according to the original Chinese wording.

Dr. Koo said that the idea was, of course, that when the establishments were bought out China would continue the industry.

Baron Shidehara said he would have the word "industry" in the second paragraph changed to "interests." He also thought that the reference in that paragraph to arbitration was clumsy. He was afraid that such an arrangement might take months. He wondered if there might not be some better arrangement for a speedy solution.

Dr. Koo said that what was meant was commercial arbitration, which was very often resorted to in China.

Baron Shidehara said that the commissions were going to be representatives of the two Governments and not of business interests. If these Government representatives could not agree on the matter and it had to be referred to arbitration it might take years.

Dr. Koo said that it was merely a commercial arbitration. He was, however, confident that when the commissioners met they would be able to agree. The provision was one only of usual precaution. He hoped there might be no serious occasion for resorting to the provision.

Baron Shidehara said that if such a provision was made the result would be to retard rather than expedite the matter. He did not know what the Chinese delegates had in mind, but if an ordinary arbitration were to be utilized, it would take a long time.

Dr. Sze hoped there might be no occasion to resort to such a means.

Baron Shidehara asked if the Chinese delegates were not going to fix the precise period of time in which the transfer of the industry was to be completed.

Dr. Sze said that the Chinese delegates did not have any laborious process in mind when they mentioned arbitration. It was an arbitration of a very simple character.

Baron Shidehara said that if the two Government commissioners could not agree and the matter had to be referred to arbitration, the

result would be rather clumsy. The commissions would have to prepare *compromis* and such *compromis* would have to be referred to the arbitrary judges, and the process would take a long time.

Mr. Hanihara said that the matter ought to be left to the good faith of the two Governments; neither side expected any difficulty. There would certainly be an arrangement to the satisfaction of both parties. If he might express his personal sentiment, the proposed clause would create an impression as if both Governments did not trust each other; as if they expected difficulties to arise.

Dr. Sze said he understood the Japanese press was against the return of the salt fields. There might be public agitation later on. That was why he had raised doubt before when he had understood Mr. Hanihara to say that Japan wanted to retain interest in the industry.

Mr. Hanihara said that once the Japanese Government agreed, they would carry out the arrangement whatever agitation might arise against it.

Baron Shidehara said that while there might be opposition on the part of the Japanese interests, he and his colleagues thought the Chinese proposal a fair solution and they were prepared to accept the proposed method of solution. There was no solution that would satisfy everybody. He read the Chinese draft as modified by himself and omitting the last sentence.

Dr. Koo asked if Baron Shidehara had any suggestion to make as to the last sentence.

Baron Shidehara said that he would rather eliminate it altogether. He thought that the period of time for the transfer of the industry would be a fair guaranty for the execution of the agreement.

Dr. Koo asked if it was the Japanese idea that "Japanese nationals" included companies as well.

Baron Shidehara answered in the affirmative.

Dr. Koo asked if there was any objection to saying "Japanese companies and nationals."

Baron Shidehara agreed.

Dr. Koo suggested adding "along the said coast" after the word "industry" and also changing the word "suitable" to "reasonable" in the modified draft.

He said that if a reasonably short period of time were fixed for the transfer of the industry, the Chinese delegates would be disposed to omit reference to arbitration. The main question for the commission was the question of valuation. It did not require much time. The transfer itself was a simple process, so he would suggest one month, or in any case not more than two months. He thought that would be ample time.

Baron Shidehara said that it was a question of practicability. According to the Chinese information, there were 17 establishments. In each case the amount of money invested would have to be computed and various necessary evidences would have to be examined. He was rather afraid that one or two months would certainly be too short. There was no idea to delay the transfer, but he doubted if it would be practicable for the commissions to complete their work within two months.

Dr. Koo asked what period Baron Shidehara would suggest.

Baron Shidehara said it was a technical question of which he had no knowledge. This period would, of course, have to be fixed before the signature of the present agreement, but for the time being he would rather leave the period blank. He remembered there were other points on which the date remained to be fixed. Perhaps the wording used before might be applied in the present case and say "within so many months if possible and in any case not later than so many months."

Dr. Koo said that on that understanding and also on the understanding that a reasonably short period was to be fixed, the Chinese delegates were prepared to omit the last clause.

The final agreement read as follows:

"Whereas the salt industry is a Government monopoly in China, it is agreed that the interests of Japanese companies or Japanese nationals who are actually engaged in the said industry along the coast of Kiaochow Bay are to be purchased by the Chinese Government on payment of fair compensation and that exportation to Japan of a quantity of salt produced by the said industry along the said coast is to be permitted on reasonable terms. Arrangements for the above purposes, including the transfer of said interests to the Chinese Government, shall be completed by the Chinese and Japanese commissions as soon as possible and in any case not later than ----- months from the date of the coming into force of the present agreement."

Continuing, Dr. Koo asked if the Japanese delegates had any other questions in mind for discussion.

Baron Shidehara said that they had none and wondered if the Chinese delegates had any.

Dr. Koo said that the Chinese delegates had a few, comparatively speaking, minor questions which could be disposed of in a comparatively short period of time.

Baron Shidehara asked if Dr. Koo could mention them.

Dr. Koo said that the Chinese delegates had in mind the question of certain claims concerning land along the railways. He realized that it was not practicable to enter into details. There was also the question of certain claims which the Chinese nationals had concerning damages suffered. He presumed there would not be much difficulty in coming to an understanding on a general adjustment, such as had been made in the negotiations of 1905 in Peking between the two Governments.

Baron Shidehara asked if the question of damages was contained in the treaty of 1905.

Dr. Koo said that it was not in the treaty itself, but in the protocol or minutes.

The meeting adjourned until 3.30 the following day.

WASHINGTON, D. C., *January 23, 1922.*

The thirty-first meeting of the Chinese and Japanese delegates relative to Shantung took place in the governing board room of the

Pan American Union Building at 3.30 this afternoon. The question of salt industry was taken up and an agreement was reached.

The meeting adjourned at 6.30 p. m. until to-morrow afternoon at 3.30 o'clock.

THIRTY-SECOND MEETING.

The thirty-second meeting held in the governing board room, the Pan American Union Building, Washington, D. C., at 3.30 o'clock in the afternoon, Tuesday, January 24, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. T. C. Yen, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

CLAIMS FOR DAMAGES AND INJURIES IN SHANTUNG PROVINCE.

Dr. Koo said that at the end of yesterday's meeting he had stated that he might try to dispose of two or three minor questions without attempting to go into details. One of these questions related to the occupation of land belonging to Chinese citizens along the Shantung Railway. In many cases the owners had been paid, but in a number of cases they had not been adequately paid or had not been paid at all. Without wishing to take up any of such questions individually, leaving them to subsequent local arrangement, he would now propose the settlement of the general principle. The same observation applied to the claims which the Chinese citizens thought they had for injuries and damages to persons or property during the period of the Japanese administration. In bringing up this question it was not the desire of the Chinese delegates to convey any impression that all these claims were well founded. In fact, all of them had to be taken up upon their own merits. Some formula, however, might be agreed upon which would enable the authorities of both countries to deal with the matter in a manner fair, satisfactory, and equitable to both sides. He believed that it was as much the Japanese desire as the Chinese to do everything toward dissipating the grievances cherished by the Chinese citizens in Shantung. They might be real or imaginary, but in the interests of good relations between the two countries it might be desirable to agree upon the general principle in regard to these claims. With these preliminary remarks he wished to read to the Japanese delegates the Chinese formula:

"All claims for restitution of land in Shantung belonging to Chinese citizens but occupied by the Japanese authorities or subjects without satisfactory arrangements and all claims for compensation arising from injuries caused in Shantung to the public property of China or to the persons and property of Chinese citizens by Japanese authorities or subjects during the period of Japanese occupation shall be jointly investigated by a Sino-Japanese commission, and if they are found just, the Japanese Government will cause fair reparation to be made."

Baron Shidehara said that he presumed that such cases as had been referred to by Dr. Koo had already been filed with the Chinese Government.

Dr. Koo replied that he thought that was the case.

Baron Shidehara asked whether Dr. Koo could kindly inform the Japanese delegates of the number of those cases and the amount involved in the claims as they had been filed with the Chinese Government.

Dr. Koo said that the number of cases of claims for the restitution of land in Shantung was, according to the available information, 11 along the railway, but the number in the former leased territory of Kiaochow was not indicated.

Baron Shidehara inquired whether those cases were claims in respect of land.

Dr. Koo replied in the affirmative. He said that claims in other parts of Shantung, viz, outside the leased territory and the railway zone, numbered 30, making 41 cases in all when the 11 cases before mentioned were included, and the amount of the claims involved stood at \$443,660.

Dr. Koo then (after consulting his secretary) stated that he had been mistaken when he had said "11 cases"; he should have said "11 districts," while his statement as to the other 30 cases had been correct.

Baron Shidehara inquired whether that meant that there were more cases than 11 in those 11 districts.

Dr. Koo replied that he hardly thought so. The documents in his hand showed that there were 14 mows involved in the first district and a little over 10 mows in the second district. The land involved in those cases was relatively very small in area.

Baron Shidehara said that in that case the districts and cases were corresponding. It appeared that there was one case in each district.

Dr. Koo said that he was not ready to say so. In the first district there were 14 mows involved, but that area might belong to 10 owners. As to the number of claims which had been filed with the Chinese Government in regard to the injuries to the lives and properties of the Chinese citizens, his information was that there were 120 cases, including claims in regard to land. The total amount of claims in this connection aggregated \$5,686,565 plus one case for which the amount claimed was 1,000 taels.

Mr. Hanihara inquired whether the *dollars* referred to were Mexican dollars.

Dr. Koo replied that he thought so.

Baron Shidehara said that the fact was this: So far as the Japanese delegates had been informed, they were not aware of one single

case in which land or any property of the Chinese authorities or Chinese nationals had been seized or requisitioned without due compensation. Therefore, whatever decision might be arrived at here, it was evidently impossible for the Japanese delegates to agree to any wording which might intimate that the Japanese authorities had perpetrated any unlawful act. In regard to the claims of the Chinese citizens against Japanese nationals in respect of injuries to persons or properties, they were mere matters of dispute between private individuals which did not form a fitting subject for the Government commissions to take up. These claims could very well be adjusted in the ordinary way; that was to say, the Chinese local authorities could take up the matter with Japanese military authorities, or, after their withdrawal, with the Japanese consular authorities. But if it was proved that the Japanese authorities had failed to pay proper compensation for any property requisitioned during the time of occupation, the Japanese Government would be quite willing to do justice to the owner. In the first place the Chinese draft seemed to suggest that the private claims should also be made to the Japanese commission. He wondered whether that was not Dr. Koo's idea.

Dr. Koo replied that that was his idea and that it was for two reasons: In the first place, the fact was that in many cases, while the land had been occupied by Japanese subjects, it was not known whether, coming in the wake of the Japanese expedition, those Japanese individuals had not been acting on behalf of the Japanese authorities. In the second place, most of the cases were more or less of the same character, and as the owners involved in the land cases were mostly people of limited means it would be easier for them to have a general clause under which the cases might be investigated by the joint commission rather than for them to go to the Japanese consulate themselves and have the cases made the subject of litigation.

Baron Shidehara said that he could not imagine how so many cases could have occurred outside the railway zone.

Dr. Koo said that the cases had occurred outside the railway zone or the leased territory, because the Japanese troops had landed at Lungkow, in the northern part of the Province, and then had proceeded through the interior.

Baron Shidehara thought that it was well understood that where the landed or other properties had been purchased or leased by Japanese under contract or agreement it was not the Chinese intention to call in question or to modify the terms of those definite individual agreements.

Dr. Koo said not as a class. It was not intended to go into all contracts freely entered into by both parties.

Baron Shidehara said that in any case the whole question was entirely novel to the Japanese delegates, involving, as it did, rather complicated points. The Chinese delegates had stated that they believed that some such formula as the one adopted in the protocol of Peking in 1905 might be adopted. The wording used in that protocol was entirely different from the one now proposed by the Chinese delegates. He wondered whether the Chinese delegates had the exact text of the protocol. According to the record which the Japanese delegation had the wording appeared to be something like this:

"With regard to Chinese properties of various kinds, public or private, which the Japanese subjects have intentionally destroyed or have used for purposes other than military, the two Governments shall examine each of these cases and due reparation shall be made."

His translation (from Japanese) might be wrong, but that appeared to be the substance of the agreement reached in 1905. He wondered whether Dr. Koo had an English translation.

Dr. Koo handed to Baron Shidehara the Manchuria section of the Treaty Handbook published by the Carnegie Peace Institute. He said he did not know how correct the translation was.

Baron Shidehara read article 12 of the protocol, as follows:

"12. In regard to any public or private property of China which may have been purposely destroyed or used by Japanese subjects without any military necessity, the Governments of the two countries shall respectively make investigation and cause fair reparation to be made" (p. 84).

He said that the Chinese draft appeared to be entirely different from this.

Dr. Koo said that one difference was due to the number of cases concerning the occupation of land. The other difference was due to the fact that to cases outside the leased territory the plea of military necessity did not apply. In the case of the Peking protocol the claims referred to cases which had arisen within the zone of actual hostilities.

Baron Shidehara said that the Peking protocol appeared to apply to properties of all kinds, real and personal, including land. Then the protocol rested upon the principle that acts of war could not be made the subject of discussion for reparation.

Dr. Koo thought that that particular point was not in question in the present instance. As he had stated, the cases which had arisen in Manchuria had arisen in the field of battle; therefore the question of military necessity had been involved. The same might be said in regard to the cases occurring within the leased territory of Kiaochow, but it did not apply to the claims outside the area. For example, before any hostilities had taken place between the Japanese and German troops the Japanese forces landed at Lungkow, at some distance from Kiaochow, and the same thing might be said in regard to cases arising along the railway zone. The Chinese draft had been formulated not with the idea of raising the question whether the acts of the Japanese had been lawful or not; that point had been carefully avoided. It only provided for a joint commission, which should consider and decide each case on its own merits. If the claims were found to be just, they would be remedied, and if unjust and not paid for, satisfaction would be felt by the parties concerned that their case had at least been passed upon. He added that the observation he had just made did not apply to the cases of injury sustained by Chinese.

Baron Shidehara said that, of course, in the case of the Russian war the acts of war took place in a wider area. According to the minutes of the Peking negotiations, the Chinese plenipotentiaries had filed various claims for remedying of damages sustained by Chinese officials and people throughout Manchuria. Then after discussion it had been decided to limit the scope of the cases which could be

made the subject of negotiation. The result had been that the clause of the protocol alluded to had been adopted. The meaning appeared to be to exclude those damages which had been due to acts of war.

Dr. Koo wondered whether he correctly understood Baron Shidehara to think that the Chinese draft included acts of war within its scope.

Baron Shidehara replied that it appeared to be the case; it seemed to imply that reparation should be made for injuries caused by acts of war. Suppose at the time of bombardment stray bullets had landed on certain houses and damages had been caused by them. It seemed as if reparation should be made for such damages according to the Chinese draft.

Dr. Koo said that the extent to which reparation should be made for the damages flowing out of acts of war was to be determined by the general rules and principles of international law; that could be ascertained without much difficulty. He thought that the phrase in the last line but one covered the point raised; he was referring to the word "just" in that line. Were a given claim to be adjudged not justified by the accepted rules of international law, then the Sino-Japanese commission would dismiss it. The word "just" had been used advisedly.

Baron Shidehara inquired whether his understanding was correct that there was no intention on China's part to give support to the claim against damages caused by acts of war.

Dr. Koo replied in the negative. By acts of war, however, he meant actual hostilities, so that the case just mentioned by Baron Shidehara of stray bullets causing damages would be covered by international law.

Baron Shidehara asked whether Dr. Koo meant that the case referred to would be included in or excluded from the Chinese draft.

Dr. Koo said that he thought neither delegation was in a position to determine what were the rules of international law.

Baron Shidehara said that it was not his intention to raise a question of international law. He was merely referring to the precedent adopted in the Peking protocol. In that document damages caused by acts of war had been excluded. The properties for which reparation was provided in that protocol referred only to those which had been damaged without any military necessity. The wording suggested by Dr. Koo seemed to have much wider scope in view than had been the case with the Peking protocol.

Dr. Koo said that in so far as cases were concerned which involved injuries caused actually by hostile operations it was not proposed that these should be included in the draft.

Baron Shidehara pointed out that the Peking protocol expressly stated that reparation should be given only in regard to those properties which might have been destroyed by Japanese subjects. The Chinese draft included injuries caused by Japanese subjects as well as Japanese authorities. That was also a point of difference.

Dr. Koo said that he did not know whether he had made his idea clear. In the case of the Russian war South Manchuria had been recognized as the zone of hostilities. In the present case the zone of military activities was limited to leased territory. In the Russian war there had been no such case as the landing of troops at Lungkow.

The Chinese draft had been drafted to cover just such cases, without any reference to the question of legality or illegality of the Japanese landing at Lungkow.

Baron Shidehara observed that in the Russian war there had also been raised a question as to the acts of hostility which had taken place west of the River Liao. He remembered China had raised a question as to the legality of hostile acts west of the river. As a matter of fact, the Russians had been there and the Japanese had had to fight them. The case of landing at Lungkow was somewhat analogous to that case in the Russian war.

Dr. Koo said that, if he recalled correctly, the case cited by Baron Shidehara had occurred after there had been hostilities east of the Liao River. He added that if it would meet the approval of the Japanese delegates some such qualifying words might perhaps be introduced after the word "occupation," "except such injuries as have been caused as a direct consequence of actual hostilities."

Baron Shidehara said that he was reluctant to refer again to questions already mentioned several times, but Japan had already indicated readiness to hand over to China ex-German public properties of considerable value without any compensation. If only the case of docks and wharves at Tsingtao were taken, the value was considerable. If the Japanese Government agreed to hand over those properties without any compensation, they might very well say, "Why should the question of reparation of the kind now proposed by China be taken up?" In the case of the Russian war there had been practically nothing handed over to China. Japan had acquired the South Manchuria Railway and the leasehold of Kwantung, the Chinese Government having consented to their transfer to Japan. In the case of Shantung the situation was entirely different. The Chinese people had to consider the difference between the two cases.

Dr. Koo said that the Chinese delegates had really made the proposal from a broader point of view than the mere question of reparation of damages. They felt that it would help to restore the feeling of friendship and good neighborliness between the two peoples. As the Japanese delegates knew, the Japanese military operations in Shantung and the long period of occupation of the Province of Kiaochow had exercised the minds of the people of the Province to a very large extent. Those who had suffered injury felt it keenly. A provision of the kind now proposed would go a long way to dissipate such feelings.

Baron Shidehara remarked that he quite appreciated the Chinese idea, but that, as a matter of fact, this question had been raised by the Chinese Government several times and each time the Japanese Government had been obliged to say that the question of war damages could not very well be taken up.

Dr. Koo wondered if it was Baron Shidehara's idea to have war damages excluded from the proposal.

Baron Shidehara answered that the whole question was an entirely new one, about which the Japanese delegates had no instructions at all. He desired to have more time to study the matter. The Chinese delegates had mentioned the Peking protocol the day before. Since receiving the Chinese draft he had been comparing it with the said protocol. He had, however, as yet come to no definite

idea how to deal with this question. He would suggest postponement until the following day. He hoped his Chinese friends would realize the difficult position of the Japanese delegation, who had no instructions whatever on the point. If they were to refer the matter to Tokyo they certainly would raise the question which he had just mentioned. They would say that if Japan were to hand over German public properties without compensation, why should the question of reparation be taken up again.

Dr. Koo said that from a broad point of view the Chinese delegates thought that the Japanese delegates would also be anxious to have such a provision, because the amount involved in the claims received by the Chinese Government was relatively small compared to the good effect which would be produced on the sentiment of the Chinese people. He hoped that if the Japanese delegates referred this question to their Government, the latter would find no difficulty in accepting the matter from a broad point of view.

Baron Shidehara pointed out that the question involved a sum of more than \$6,000,000.

Dr. Sze said that it was possible that upon investigation many of the claims might prove without foundation. It might, after all, be a small fraction of the claims which could be sustained.

Baron Shidehara said that if commissioners were appointed by China and Japan to deal with these claims, all the claimants would at once press upon them to get satisfaction, and there must be expected quite a local agitation. Hundreds of people might come asking this and that. He was afraid there might be local agitation of serious proportions.

Dr. Sze said that if a certain case was taken up and dismissed, no similar case would come up again, and there would not be much agitation.

Baron Shidehara said that the people would in any case be unsatisfied and there would certainly be agitations. They would attack both the Chinese and Japanese authorities through all means, including recourse to the press. They would make trouble in case their claims were dismissed.

Dr. Sze said that only those cases found to be baseless would be dismissed.

Baron Shidehara said that the commission would certainly follow an impartial course, but the claimants might not be satisfied with the findings of the commission. There was a likelihood of local agitation of pretty serious nature arising. It should be remembered that there were something like a hundred claimants to handle, which would mean an enormous task to the commission.

Dr. Koo said that the examination and adjudication of claims for compensations were more or less frequent procedure in international relations. He remembered that after the revolution in China in 1911 claims involving \$32,000,000 and numbering 1,500 cases had been adjudged at the mixed court almost inside of nine months. The investigation of the claims would in itself go a long way toward dissipating any agitation on the part of the people. If no investigation or hearing were given to their claims, everyone would think that his good case was not properly taken care of. If the joint commission was held and hearing was given to the cases, at least those claim-

ants whose cases were found to be just would be satisfied. Therefore he thought that from the Chinese point of view at least, and further in the interests of the good relations between Japan and China, the step suggested in the Chinese formula would be a sagacious one to take.

Baron Shidehara again suggested postponement until to-morrow, and he asked if there were any other matters which the Chinese delegates had in mind.

TELEGRAPH LINES.

Dr. Koo answered that there were a few questions upon which he wished to state the understanding of the Chinese delegates, which he hoped would be shared by the Japanese delegation.

With regard to the telegraph lines along the Shantung Railway, the Chinese delegates understood them to be part of the said railway, and that they would be handed over along with the railway properties.

Mr. Hanihara said that they would be when the question of the railway was settled.

POST OFFICES.

Dr. Koo said that as regarded the post offices along the railway, the Chinese understanding was that these should be withdrawn at the same time as the transfer of the railway if that transfer took place before January 1, 1923. If the transfer were to take place later, the post offices would nevertheless be withdrawn by January 1, 1923.

Mr. Hanihara said that it would be so, if the Shantung question was settled in time.

Dr. Koo said that he did not understand how the interpretation of the post-office resolution of the Far Eastern Committee could make the withdrawal of the post offices in Shantung depend on the settlement of the Shantung question.

Baron Shidehara said that he understood the said resolution referred to post offices outside leaseholds.

Dr. Koo said that he was not certain about that, but he should have supposed that the post offices in Shantung * * *.

Baron Shidehara, interrupting, said that with regard to post offices within the Kiaochow leased territory, the Shantung question must be settled first before they could be withdrawn. Those outside the leased territory would, of course, be covered by the general principles adopted by the Far Eastern Committee.

LIGHT RAILWAYS.

Dr. Koo said he was glad that the Chinese understanding was shared by the Japanese delegates regarding post offices outside the leased territory. There was also the question of light railways—less than 6 miles in length, all told—which were clearly included in the “additions” to the Shantung Railway.

Baron Shidehara asked if Dr. Koo meant those railways connecting the main line with the mines.

Dr. Zoo answered in the affirmative and asked if they were to go with the railway and were to be transferred to China along with the main line if an agreement were reached thereupon.

Baron Shidehara answered in the affirmative.

FORESTRY.

Dr. Koo said that there was also the question of certain forestry interests. He understood they belonged to public properties.

Mr. Hanihara said that forestry interests were something the Japanese delegation knew nothing of, unless they were those Japan had in connection with the water supply of Tsingtao. If Dr. Koo meant the latter, that would go with the leased territory.

Dr. Koo expressed satisfaction with Mr. Hanihara's explanation.

The meeting adjourned at 6 o'clock until 3.30 o'clock Thursday.

SJC-32.]

JANUARY 24, 1922.

[For the press.]

Issued by the Japanese and Chinese delegations.

The thirty-second meeting of the Chinese and Japanese delegates with regard to the question of Shantung took place at 3.30 p. m., Tuesday afternoon, January 24, in the governing board room of the Pan American Union Building. The questions of land and the claims by Chinese citizens in Shantung Province were taken up and the discussion will be continued at the next meeting.

The meeting adjourned at 6 o'clock until 3.30 Thursday afternoon.

THIRTY-THIRD MEETING.

The thirty-third meeting, held in the governing board room, the Pan American Union Building, Washington, D. C., at 4 o'clock in the afternoon, Thursday, January 26, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

CLAIMS FOR DAMAGES AND INJURIES.

Dr. Sze said that at the last meeting the conferees had touched upon the question of claims for the restitution of land, etc., and he understood that they were to continue on the same subject to-day.

Baron Shidehara said that he had carefully considered the Chinese draft. The question, it seemed to him, included two classes of claims. The first class dealt with claims against Japanese authorities and

the second against Japanese subjects or individuals. In regard to the first class of cases, he and his colleagues had examined the actual facts and had ascertained that outside the leased territory in the Province of Shantung the Japanese authorities had not purchased any lot of ground nor were they in occupation or possession of any land except the railway property, which was now understood to be handed over to China. Therefore, if his information were correct, there seemed to be no lot of land to be retained by the Japanese authorities after the handing over to China of the railway properties. Within the leased territory the Japanese authorities had acquired certain lots of ground, but each time through the ordinary process of purchase with the free consent of the owners. There had been no requisitioning or compulsory sale of any kind. So he could not conceive of any claims which could properly be brought up by Chinese citizens or authorities against Japanese authorities. With regard to the question of damages, as he had stated, the Japanese delegates felt that the Japanese Government could not be held responsible for any damages which might have been caused by the military operations of Japan in the Province of Shantung during the late war. No such responsibility had been assumed either by Japan or Russia for the military operations during the war of 1904-5 in Manchuria. It therefore seemed to him that, so far as the Japanese authorities were concerned, there could, as a matter of practice, hardly be just claims either for the restitution of land or for the recovery of damages. But if there were complaints at all in that respect, the Japanese Government would no doubt be quite willing to do justice to the claimants, and the Japanese consular authorities would be prepared to take up all those claims.

In the second place, in regard to the question of the claims of Chinese citizens against Japanese subjects, it was conceivable that there should be certain claims of Chinese citizens for the restitution of real property on the ground that such property was in unlawful possession of Japanese subjects in Shantung or claims for the recovery of damages on the ground that unlawful acts had been committed by Japanese subjects in Shantung during the time of the Japanese occupation of the leased territory of Kiaochow. But those were ordinary cases of claims of the Chinese against the Japanese, and could be very properly dealt with in the ordinary way; namely, they could be brought up before the Japanese consulate for examination and adjudication. And he felt sure that the Japanese Government would be ready to send communications to the Japanese consular authorities to expedite the examination of those questions and their legal proceedings and to do full justice to the claims of the Chinese citizens.

So, after all, it appeared to him that there was no special need for, or advantage in, organizing a special Sino-Japanese commission in this respect. As a matter of fact, if those questions were brought up before the Japanese consular authorities, and if those consular authorities and the Chinese authorities should be of the opinion that examination of facts could be expedited by the formation of a joint commission, that could then be very well arranged. It did not appear to be necessary now to arrange that a Sino-Japanese commission should be specially organized for that purpose. It was a matter of convenience only, and the question could be adjusted

in the ordinary way without resorting to such special proceedings. So far as he understood, no such claims had been brought either to the Japanese authorities at Tsingtao or to the Japanese consular authorities at Tsinan, but if they were actually brought before those authorities, they would be only too glad to take them up.

Dr. Koo said that whether there were any cases in which land had been occupied by the Japanese authorities in Shantung without satisfactory compensation * * *.

Baron Shidehara, interrupting, said that, as he had stated, outside the leased territory of Kiaochow no land had been occupied by the Japanese authorities except the railway properties, which were to be handed over to China.

Dr. Koo said that he had been going to say, whether or not the claims were well founded, it was a question of fact; it all depended upon evidence. The Chinese delegates had records with them, but they need not go into details here as to how many of the cases could be sustained. The question of facts could be easily ascertained, so that the point might be left in abeyance.

Baron Shidehara said that, so far as the Japanese records showed, no land had been occupied by the Japanese authorities except the railway properties, which were to be handed over to China.

Dr. Koo said that one very distinct class of cases was land occupied by Japanese military authorities for target practice. The Chinese record showed that the occupation had been made without the consent, and in some cases even against the protest, of the local authorities. As regarded the other class of cases in which Japanese subjects were involved, he understood that Baron Shidehara was under the impression that there actually existed such cases. The main point appeared to be to reach a provisional understanding as to the means to deal with those two classes of cases. He understood that Baron Shidehara preferred that they should be handled by the consular authorities, but he (Dr. Koo) wondered how such a process would be feasible, considering that, in the first place, the cases were scattered over a large area, and, in the second place, the number of cases was comparatively large. There were 120 cases filed, which would, in the ordinary course of events, occupy a great deal of time. He did not know how far the machinery in the Japanese consular establishment would be adapted to handle such a large number of cases. He said this earnestly, because most of those cases involved the interests of a large number of people of small means, who could not afford to wait long before the settlement was reached. It might be more practicable and advisable to have some special machinery as he had suggested. In that connection, he would express his gratification that so far as the investigation of facts and the gathering of evidence were concerned, Baron Shidehara had seen the advisability of establishing a Sino-Japanese commission. He (Dr. Koo) wondered whether the function of the commission could not be extended to the adjustment of those cases definitely.

Baron Shidehara said that when he had said that it was conceivable that there should be claims by Chinese citizens against Japanese subjects, it had not been his intention to convey any inference as to the actual existence of any such claims. With regard to the function of that commission, there was one point to be considered: Suppose the commission examined each case and gave findings, there was

nothing which made such findings obligatory upon Japanese subjects. They would have no legal effect; only the findings of the court were binding upon Japanese subjects. If Japanese subjects simply denied the existence of facts there would be no way of proceeding any further. The Government could not compel subjects to pay damages, except by virtue of judgments rendered by the court. The function of such a commission would legally be only administrative, and would have no judicial force. Even if the claims by Chinese subjects were found just, the Government would not be able to compel Japanese subjects to pay for the injuries or restore the properties without judgments of court. That was the difficulty. What the commission could do would only be to find out exact facts. Even if a claim were found to be just, the Japanese Government would not be able to undertake to compel the Japanese to pay the damages; it was only through judicial procedure that the claims could be enforced.

Dr. Koo said that Baron Shidehara was referring to the cases in which Japanese subjects were involved. He wondered whether that applied to the cases in which the claims were preferred against the Japanese authorities.

Baron Shidehara said that it did not. Only he did not know how many of such cases there actually were. Dr. Koo had referred to the case of land used for target practice. He wondered if there were many more similar cases. In any case, many lots of land had been restored to the Chinese, and after the withdrawal of the troops there would be no piece of ground occupied.

Dr. Koo said that for the past few years land had been used in several cases without any compensation. It was only just that it should be paid for.

Baron Shidehara said that if that were the case the Japanese Government would certainly be glad to do justice, although it had no information on the subject.

Dr. Koo asked how Baron Shidehara proposed to modify the Chinese draft.

Baron Shidehara said that he had nothing to offer. He thought that there would be no need of any such special provision.

Dr. Koo said that some provision would be desirable, because the two delegations had practically agreed in substance. While the total amount involved was a few million dollars, still so many people were interested in the matter that some provision would serve a very useful purpose.

Baron Shidehara said that there was another minor point which he might do well to mention. In the Chinese draft reference was made to the injuries caused to public properties of China. Now, Dr. Koo had explained that by the present proposal it was intended to give satisfaction to the claims of local population, with a view to allaying their agitation. If so it would not be the Chinese intention to press for the payment for damages which might have been caused by military operation of Japan during the late war to public properties.

Dr. Koo said that what was intended in the Chinese draft in regard to public properties of China was only actual damages done to those properties.

Baron Shidehara said that he understood Dr. Koo's point of view, but the meaning of the whole proposal appeared to be to pacify and relieve the agitation now being made by the local population. If that was the case, public properties could very well be left out of consideration.

Dr. Koo said that if Baron Shidehara could take the Chinese draft as it stood, the Chinese delegates were disposed to omit "public properties" to meet the Japanese wishes, with the understanding that such public properties as had been taken away would be restored to China and the question of damages would not be referred to.

Baron Shidehara inquired whether there were many such cases of damages alleged to have been caused by the action of the military authorities. If so, he would like to know how many there were.

Dr. Koo said that on the list he had, the number appeared to be quite considerable, although it was conceivable that some of those cases would, upon investigation, prove not well founded. But that was a question of fact.

Baron Shidehara said that, as he had stated, the Japanese delegation had no information on the point. If there were any such cases, and if they should be brought to the military authorities now at Tsingtao, or to the consular authorities at Tsinan, they would certainly try to do justice. If there were only half a dozen cases, it would not be necessary to have a special commission. The authorities of the two countries could take up the cases and decide them upon their own merits.

Dr. Koo said that the total number was 120, including the private and public cases.

Baron Shidehara presumed that the number mostly represented private cases.

Dr. Koo said that a good many of them were private cases, but quite a few were cases in which Japanese authorities were concerned.

Baron Shidehara said that the ordinary course to be taken by the Chinese Government in the matter would be, in the first place, for the Chinese authorities to investigate the cases and then, upon prima facie evidence, bring them up before the Japanese authorities, whereupon, if necessary, local negotiations would take place.

Dr. Koo said that that would probably take a long time. If a joint commission were established and all the evidences and documents were amassed before them, they would sift the evidence and would agree to rule out such cases as were not supported by sufficient evidence. The whole matter could be arranged in a shorter period of time.

Baron Shidehara said that he quite realized Dr. Koo's idea, but, so far as private claims were concerned, the findings of such a commission would have no binding force upon the private individuals. It would be legally impossible for the Japanese Government to undertake to compel Japanese subjects to make reparations on the strength of such findings. Only through judgments rendered by the court could they be enforced.

Dr. Koo said perhaps they could adopt a separate procedure in regard to the cases in which the claims were against Japanese subjects. The investigation of facts could be undertaken by the joint

commission and the final adjustment be left to the Japanese and Chinese authorities.

Baron Shidehara said that the trouble was that the result of such negotiations would not be binding upon Japanese subjects against whom findings might be given.

Dr. Koo said that the evidences could easily be turned over to the proper authorities. In normal cases, investigations of facts would take a long time. If the findings of facts were left to consular authorities, it might tax their time too much. Therefore, in order to meet the Japanese point, he was proposing that the adjudication should be made by the Japanese and Chinese authorities after the evidence and facts had been gathered by the joint commission.

Baron Shidehara said that he was speaking of the rather technical side of the question. The findings of the commission had no legal effect. If a Japanese said that he could not be subjected to the rulings or findings of such commission, what could be done? They could not be compelled to pay.

Dr. Koo said that, as he understood, there were two steps involved. The commission would first investigate and report on the question of facts, and the next step would be to find the law and pass judgment. He understood that Baron Shidehara saw difficulty in the commission rendering final judgment in the cases where Japanese subjects were involved. He would now suggest that the question of final lawsuit should be left to the proper Japanese authorities, if that course was preferred. That was often done. When an important case was brought before the court it often designated a special commission to gather evidence, especially when it could be gathered only on the spot, which happened to be far removed from the court.

Baron Shidehara said that in the ordinary course of affairs such would be done by the order of the court.

Dr. Koo said that in the present case there was nothing to prevent the commission being invested with the power to investigate facts. Such had frequently been done. In various cases commissions of inquiry had been appointed.

Baron Shidehara inquired what the relation between the results of the examination by the commission and the judgment of the consular courts could be. The commission could not itself bring up the cases before the court. The claimants themselves had to present civil cases before the court.

Dr. Koo wondered if it was necessary to enter into the details of procedure of the consular courts. The matter could be easily adjusted, especially on the part of the Japanese authorities usually so well equipped. He thought that if the two delegations could reach any understanding as to the general procedure to be followed in the investigation of facts and the rendering of decisions, that would be all that could be done here, leaving the details to be later worked out locally.

Baron Shidehara asked Dr. Koo to tell him what the exact Chinese proposal was. There was certainly this difficulty on the Japanese part, that even if the claims were found to be just by the commission, the Japanese Government could not undertake to cause reparations to be made by Japanese subjects, except where the cases were brought before the court through the ordinary judicial procedure.

Dr. Koo thought that they could perhaps easily readjust the draft (p. 314) to meet the Japanese difficulty. Taking the draft as it stood, they could omit "subjects" in the two places where they occurred, so that the draft would apply only to the cases involving Japanese authorities. And then in the second clause they could use the same language, leaving out the word "authorities"; then toward the end they could use the phraseology, "and referred to the Chinese and Japanese authorities for final adjustment." That would leave sufficient latitude for the cases either to be referred to the consular court or to any other special tribunal which the Japanese Government might institute and which the two Governments might agree upon.

Baron Shidehara hoped that the Chinese delegates would realize the difficulty of the Japanese delegates to agree to any arrangement which might intimate that the Japanese authorities in Shantung had committed unlawful acts, had requisitioned land without adequate compensation or had been guilty of acts resulting in injuries to Chinese citizens. So far as the Japanese delegation was informed there was no such instance. It was of the first importance for him and his colleagues to know what were these complaints filed with the Chinese Government. If they could have a list of these complaints, then perhaps they could find out the most suitable way to deal with the question. They might then know whether the provision of a special commission would be necessary or not. There seemed to be some cases which had never been known to the Japanese authorities. If they were brought to their knowledge, the Japanese authorities would be quite willing to do justice to the claimants.

Dr. Koo said that a number of these cases had been brought to the attention of the Japanese authorities. There was, for instance, a case where the Japanese military authorities had occupied a piece of land to use it for target practice. The Chinese local authorities had taken up the matter with Lieut. Col. Kishi for adjustment but without satisfaction, the result being that finally the treasury of the county had advanced money to the claimant. The question was still outstanding. There was also a case where a piece of land which had originally been set aside for the use of the Japanese consulate had been used by a Japanese subject as a site for a billiard room. Local authorities had taken up the question with the Japanese consul at Tsinan. It could not thus be said that all the cases had not been brought up before the Japanese authorities.

Baron Shidehara said that in any case those claims had not been known to the Japanese Government; that was, neither to the legation at Peking nor to the Tokio Government. If local adjustment had not been reached upon these cases, the Chinese certainly had a means of bringing them before the Japanese Government either through the legation at Peking or directly to the foreign ministry at Tokio. The Japanese Government would be willing to do justice to the individual claimants; should some of the cases be rather involved in nature he had suggested that a Sino-Japanese joint commission might be organized to investigate into the exact facts. At any rate a general clause for the organization in advance of such a commission would seem to be unnecessary.

Dr. Koo said that he wondered if the real purpose of the Chinese proposal had been well understood. It was not the intention of the

Chinese delegates to call in the question of whether the Japanese authorities had acted unlawfully or not. The idea was to find a machinery to establish facts one way or the other. He would naturally suppose that the Japanese government would also be anxious to have any claims advanced against them investigated.

Baron Shidehara said that if claims were preferred against them the Japanese Government would at once institute machinery for inquiries and might properly ask assistance of the Chinese Government in ascertaining facts. If the facts of the case were quite clear, it would not be necessary to form any commission, and he supposed that these facts could be easily ascertained or that they had already been ascertained. If the Chinese delegates had a list of cases, he desired to have a copy thereof.

Dr. Koo said that although he had no objection to giving a copy to the Japanese delegates he wondered if it was their intention to take up each case here.

Baron Shidehara said it was not his idea, only he thought that with such a list he and his colleagues might be able to decide whether there should be a special commission or not. It might well be that even for the purpose of investigation of facts there was no need of any special commission, for it seemed that some of the cases had already been referred to the Japanese authorities, and they must naturally have made inquiries.

Dr. Koo said that all these claims were the aftermath of the whole Shantung question; since the two delegations were now settling the whole question, it seemed to him that they should also provide a way of disposing of small cases about which the Chinese people entertained a good deal of grievance. It would be in the interest of improved relations between the two countries that a speedy and satisfactory way of procedure should be provided in regard to these cases.

Baron Shidehara said that it was the first time that a proposal of this kind had been made in a like case. No such procedure had been followed in the Russian war.

Dr. Koo asked what Baron Shidehara proposed to replace the Chinese draft with.

Baron Shidehara said that he did not think it necessary to make any special arrangements regarding the question now brought out. The Japanese authorities concerned would be properly instructed by the Japanese Government in respect of these claims. It was only a matter of convenience whether a commission should be formed or not. If the claims preferred should be established, the Japanese Government would naturally pay reparation so far as those preferred against the Japanese authorities were concerned. In regard to claims against private Japanese the only way seemed to be to bring the matter before the consular authorities for examination and adjudication by the ordinary method provided for in the treaty between China and Japan. Should there be quite a large number of cases the Japanese Government could send an additional staff for the express purpose of dealing with those cases.

Dr. Koo asked if he understood, that so far as cases of claims preferred against the Japanese authorities were concerned, the Japanese Government would be ready to take up the matter and if found just,

on investigation, the Japanese Government would either restore the property or make reparation therefor, but that the Japanese delegates preferred not to make any special agreement in that respect.

Baron Shidehara said that Dr. Koo's understanding was correct.

Dr. Koo said that he also understood that with regard to claims brought against Japanese subjects the Japanese delegates had no objection to having a Sino-Japanese commission investigate into them if such course should be found necessary, but that they were inclined to think that the consular authorities would be able to handle the matter with such additional staff as the Japanese Government might send in case of need.

Baron Shidehara said that that was the Japanese position.

Dr. Koo said it was not his wish to prolong the conversations any longer now that the two delegations were practically at the end of minor questions. To meet the Japanese point of view and at the same time not to overlook their own difficulty, the Chinese delegates would make this suggestion: That the two understandings he had just stated in regard to the cases of claims preferred against the Japanese authorities and Japanese subjects, respectively, should be quoted in the minutes of these conversations. Then in place of the express provision contained in the Chinese draft he would suggest a neutral clause to the effect that the omission of reference in the agreement on Shantung to the question of claims did not prejudice any claims which China or Chinese citizens might have against the Japanese Government or Japanese subjects arising during the period of Japanese occupation. The purpose was not to give rise to undue misgivings or criticism on the part of the Chinese people.

Baron Shidehara asked if it was Dr. Koo's idea that that should be a special article in the agreement.

Dr. Koo said that he should like to see that in the agreement.

Baron Shidehara said that he did not think it advisable that such an article should be inserted in the treaty itself. The Japanese delegates would then have to say that the Japanese Government could not be held responsible for any damages that might have been caused by Japanese military operations in Shantung during the late war. If a clause like that were to be inserted in the treaty, it would give rise to misgivings. He thought that there was an agreement in substance on the whole matter, but his idea was that it would not be necessary to make any special arrangement on that question. Moreover, the respective positions of the two delegations in this matter had already been made clear in the minutes. It would not be necessary to make any special arrangement.

Dr. Koo said that in that case he was not disposed to insist on inserting that article in the treaty, but he wished to have this other clause also recorded in the minutes with the agreement of the Japanese delegation—the clause that the omission of any reference to the matter in the agreement would not prejudice any Chinese claims against the Japanese Government or subjects.

Baron Shidehara agreed. On the other hand, he would have it placed on record that the Japanese Government could not be held responsible for any damages which might have been caused by military operations of Japan in Shantung during the late war.

Dr. Koo agreed.

Baron Shidehara said that, of course, as he had stated several times, it was to be understood that nothing which had passed here was to be taken as an acknowledgment on the Japanese part of the existence of those Chinese claims. There was no admission on the Japanese part that there were already justified claims of Chinese citizens or the Chinese Government.

Dr. Koo said that that was the Chinese understanding. He thought that each case would have to be decided upon its own merits.

Mr. Hanihara said that the entries which had been agreed to be made in the record were not to be taken as an admission on the part of the Japanese delegates that there existed such claims against Japan or the Japanese. The matter had first to be investigated.

Dr. Koo said that he had thought the Japanese consular authorities had been making detailed reports to their Government.

Baron Shidehara asked if any of the cases of claims had ever been made known to the Japanese consular authorities. He thought it had been only the military authorities that had been approached so far.

Dr. Koo said that the second of the instances he had mentioned had been taken up with the Japanese consul at Tsinan.

Baron Shidehara said that the Japanese delegation did not deny the existence of claims, but they could not confirm it either, for they had no materials on the matter in hand.

Dr. Koo said that the Japanese Government could naturally not be expected to make reparation for things of which they had no knowledge. The Chinese information was that the cases were established. He then asked if there were any other questions to be taken up.

Baron Shidehara answered in the negative.

QUESTIONS NOT SETTLED NOW.

Dr. Koo said he understood that all other questions, whatever they might be, except that of the railway, which had not been brought up here, would be adjusted by the commissions if such adjustment should be found necessary.

Mr. Hanihara said that that was a matter of course; that there might be matters about which the two delegations had no knowledge.

Dr. Koo said that now that all minor and collateral matters had been disposed of, he wondered what should be the next step for the two delegations to take.

Baron Shidehara asked if Dr. Koo didn't think it advisable for members of the delegations to compile the individual agreements so far reached and draft the agreement on the question of Shantung, leaving aside the question of the railway.

TREATY FORM—FULL POWERS.

Dr. Koo said that he thought that should be done in time. As to the form the agreement was to take, he wondered if it was the intention of the Japanese delegation to put the substance in a form of treaty or a convention.

Baron Shidehara said that he had no definite idea; that it was rather an important point, which had to be considered.

Dr. Koo said the Chinese opinion was that an important question of this nature should be put in the form of a treaty.

Baron Shidehara said that if the treaty was to be signed here both delegations would require full powers for that purpose. He did not know whether the general full powers they had would suffice or if it would be necessary for them to get special full powers.

Dr. Koo said that perhaps special full powers would be necessary.

Mr. Hanihara said that that was his personal impression, too.

Baron Shidehara said that in that case they could not wait until the arrival of such full powers. He thought that some convenient method should be adopted. He would suggest an arrangement to the effect that the full powers should be presented by the respective Governments to the accredited minister of each other. If the full powers should be found in due and correct form by the ministers, their exchange might be done by telegraph.

Dr. Koo asked if it was Baron Shidehara's idea that the respective Governments should first prepare full powers and show them to the accredited minister of the other.

Baron Shidehara said that the presentation of the full powers to the Japanese minister at Peking or the Chinese minister at Tokyo would be taken as their proper presentation to the respective delegations here.

Dr. Koo asked if it was the idea that as between the two delegations the telegraphic copies should be exchanged.

Baron Shidehara answered in the affirmative.

Dr. Koo asked if it was the intention of the Japanese delegates to communicate with their Government to that effect.

Baron Shidehara said that it was.

Dr. Koo said that in view of the fact that the agreement had to be reported to the conference, he wondered if the Japanese delegates had any objection to having the respective Governments, while showing the full powers to the accredited ministers, also formally notify both the American Legation in Peking and the American Embassy in Tokyo, which in turn would report the matter to the United States Government. The Government here, as convener of the conference, assumed the responsibility that an agreement should be properly made on the Shantung question, so the notification suggested by him might be desirable.

Baron Shidehara wondered if there was an understanding that the results of these conversations should be referred to the plenary session of this conference.

Dr. Koo said that the Chinese understanding was that they should be reported either to the Far Eastern Committee or to a plenary session. It was purely a question of procedure, this matter of full powers. Perhaps it would not cause much inconvenience to either side, but the course suggested by him would be a useful step to take.

Baron Shidehara said that he did not quite understand the purpose of the Chinese suggestion. He wondered if the idea was to communicate the terms of the agreement decided here to the American Legation at Peking and the American Embassy at Tokyo.

Dr. Koo said that it was not the idea. His suggestion was that merely the fact of the full powers having been sent should be notified to the American representatives at those two capitals.

Baron Shidehara wondered whether Dr. Koo proposed to omit the British Government.

Dr. Koo said that he had made his suggestion because the American Government was the convener of the conference, to which the proposed agreement would be reported. If it was Baron Shidehara's idea that the British Government ought to be included that might perhaps be a more perfect arrangement.

Baron Shidehara said that he did not quite see the necessity of notifying the American Government of the fact that full powers had been sent. He did not see any practical necessity or reason for such a course.

Dr. Koo said that the only point was that the American Government, as the convener of the conference, would like to know that the agreement had been duly made.

Baron Shidehara said that this agreement could very well be communicated to the government of the United States. In fact, he supposed that the agreement would be notified to all the nine powers assembled here.

Mr. Hanihara said that it was not the case.

Baron Shidehara pointed out the resolution passed by the nine powers.

Mr. Hanihara said that that resolution would not come into force for some time yet.

Baron Shidehara said that at any rate it was a matter of procedure only, which could easily be arranged.

Dr. Koo said that that being the case, the matter might be considered as agreed upon.

Mr. Hanihara said that if the Shantung agreement were to be reported to the conference it was necessary to distinguish between the conference of the nine powers and this Shantung conference. If the chairman of the conference deemed it proper, he might report it to the conference, as in the case of the Yap treaty, by way of information. But the conversations on this Shantung conference were no part of the business of the other conference; that was why it was necessary for the two delegations to get distinct full powers.

Dr. Koo said that the Shantung negotiations were not directly part of the other conference, but were collateral to it. His proposal was only that the fact of the full powers having been dispatched should be communicated to the American representatives in Tokyo and Peking.

Baron Shidehara thought it was hardly necessary.

Dr. Koo suggested leaving the matter to the discretion of the respective Governments. As to the drafting, he wondered if the two delegations should meet in full force.

DRAFTING COMMITTEE.

Baron Shidehara suggested appointing two members of the delegations on each side. The draft prepared by them would, of course, have to be approved by the two delegations.

Dr. Koo said that at least one delegate from each side ought to be present at the drafting committee.

Baron Shidehara said that in that case three members from each side should be present.

It was agreed that the drafting committee should meet at 10.30 Saturday.

Dr. Koo said that there was another question—the question of the language to be used for the treaty.

Baron Shidehara wondered if Dr. Koo preferred to have an English text only or to have Japanese and Chinese texts, with the text in a third language as the ruling one.

Dr. Koo said that the ruling text should in this case be the language in which these conversations had been carried on.

Baron Shidehara suggested proceeding with the English language. If either of the Governments deemed it necessary to have three texts, they could easily be made after the English text had been prepared.

The meeting adjourned at 6.30 sine die.

WASHINGTON, D. C., *January 26, 1922.*

SJC-33.]

JANUARY 26, 1922.

[For the press.]

Issued by the Chinese and Japanese delegations.

At the thirty-third meeting of the Chinese and Japanese delegates relative to the Shantung question, held in the Pan American Union Building at 4 o'clock this afternoon, some minor points were brought up and concluded. A drafting committee relative to the Shantung question will meet at 10.30 Saturday morning, January 28, 1922.

THIRTY-FOURTH MEETING.

The thirty-fourth meeting, held in the governing board room, the Pan American Union Building, Washington, D. C., at 3 o'clock in the afternoon, Monday, January 30, 1922.

PRESENT.

China.—Dr. Sao-Ko Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. C. Yen, Mr. T. Y. Tsai, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

RAILWAY.

Dr. Sze said that it was not useless that another effort should be made to see whether the conferees could not find avenues where the divergent views of the two delegations could meet on the question

of the railway. There were three important points which had to be settled: First, the mode of payment; secondly, the period; and thirdly, the employment of Japanese experts. He wondered whether the Japanese delegates had anything new to suggest on these points.

Baron Shidehara said that he had nothing new to suggest at that moment. Last time the question of the railway had been discussed, Dr. Koo had said that he would like to report the whole matter to Mr. Hughes and Mr. Balfour, and that the Japanese delegation would then be informed of the Chinese intention. They had not yet been informed as to the Chinese intention regarding the adjustment of the matter. He would like to know if the Chinese delegates had come to any decision in this matter.

Dr. Sze said that the Chinese delegates had had occasions to talk the matter over with Mr. Hughes and Mr. Balfour and from an earnest desire to have the question settled at an early date, and being animated by a spirit of conciliation and fairness, the Chinese delegates had taken into serious consideration certain formulae suggested which it was understood had also been made known to the Japanese delegates. As to the question of the mode of payment, the Chinese delegates understood that the Japanese delegates were ready to accept the payment for the railway by means of Chinese treasury notes. He wondered whether that was the understanding of the Japanese delegates also.

Baron Shidehara asked whether the Chinese delegates could kindly let him and his colleagues know the formula for the adjustment of this question.

Dr. Sze said that in the conversations the Chinese delegates had had with Mr. Hughes and Mr. Balfour the whole question had been divided into the three points he had just referred to. He had already mentioned the first. As to the second point the Chinese suggestion had been that after three years and a half China might at any time redeem all liabilities by paying the balance of the installments. The Chinese delegates had understood from Mr. Hughes that the Japanese wish had been that the option for the redemption could be exercised only after five years, and if that option were not to be exercised, then the liabilities would remain until the end of the fifteenth year. As to the experts, the understanding had been that there should be a Chinese chief accountant with a Japanese associate chief accountant, and Mr. Hughes had told the Chinese delegation that the Japanese delegates had insisted upon the appointment of a Japanese traffic manager, and that they had offered that at the end of two years and a half a Chinese assistant traffic manager might be appointed so that he might gradually take over the duties after the fifth year if the entire liabilities were to be redeemed at the end of that period. He wondered whether that coincided with the Japanese understanding of the situation.

Baron Shidehara said that he had understood from Mr. Hughes and Mr. Balfour that their suggestion for the adjustment of this question had been this: With regard to the period of time, the treasury notes would run for 15 years. After the lapse of five years China should have the right to redeem the whole outstanding liability. As to the employment of Japanese railway experts, one Chinese and one Japanese were to be employed in the department of accounts. In other words there were to be two coaccountants. They would have the

same functions and the same responsibility; there would be two chief accountants in the accounting department. As to the traffic department the Chinese Government should employ a traffic manager of Japanese nationality for the period during which those treasury notes should remain unredeemed, but with the understanding that after two years and a half from the date of the deposit of the treasury notes the Chinese Government might appoint an associate traffic manager, under the Japanese traffic manager, for the period of two years and a half. It was also understood that such Chinese assistant traffic manager might also be appointed at any time after the notice for the redemption was given.

Dr. Sze requested Baron Shidehara to repeat the latter part of his remark, so that he might correctly understand Baron Shidehara's meaning.

Baron Shidehara said that after two years and a half from the date of the deposit of the treasury notes, the Chinese Government might appoint an associate traffic manager of Chinese nationality under the Japanese traffic manager for the period of two years and a half, but at the same time it was understood that such Chinese assistant traffic manager might be appointed at any time after the notice for the redemption was given.

Dr. Sze said that he was not quite clear as to the five-year period. He had thought that the period did not start from the date of the handing over of the treasury notes. It might take long before such handing over was effected, for printing and the signing of such notes would take quite a long time. He was saying that from his personal experience in London.

Baron Shidehara said that, at any rate, the deposit was to take place only several months from the signing of the treaty. It would first be necessary that the valuation of the railway properties should be made. China would have ample time in which to prepare the treasury notes.

Dr. Sze said that in London he had been in charge of the issue of a quarter of a million pounds in treasury notes. It had taken him a long, long time for the wording and the printing, etc. He supposed that Japan would not insist upon all the printed notes being delivered on the day of the ratification of the treaty. On that date a provisional script would be given to the Japanese Government. He added that in Baron Shidehara's own proposal, at the twentieth meeting, on January 6, it had been offered that the period for which the loan was to run should be fixed at 15 years, while China should have an option for redeeming the outstanding liability on six months' notice after five years from the date of the agreement.

Baron Shidehara said that he did not remember the exact wording he had used. But the treasury notes should run for the period of 15 years; that was to say, 15 years after the treasury notes were actually deposited in the Japanese hands. China would have to assume the responsibility from the date on which the treasury notes were delivered.

Dr. Sze wondered whether he was to understand that the period would start from the date the treasury notes would be handed to the Japanese Government.

Baron Shidehara replied in the affirmative.

Dr. Sze said that, of course, China could deliver the notes to Japan as soon as they were ready.

Baron Shidehara stated that the valuation of the railway and its appurtenant properties should first be made; otherwise they would not be able to ascertain the amount of China's liability.

Dr. Sze wondered whether he was not to understand that during the 15-year period China would pay one-thirtieth of the total amount of obligation every six months.

Baron Shidehara asked whether it was Dr. Sze's idea to hand in one-thirtieth of the amount every half year, from the first year of the 15-year period.

Dr. Sze replied in the affirmative. He thought that inasmuch as China was to pay every six months, one-thirtieth of the total obligation should be paid each time.

Baron Shidehara said that that was not his understanding. Within the five-year period no redemption should be made. It was only after that five-year period that China could make any redemption.

Dr. Sze desired to ascertain whether Baron Shidehara's idea was that China should pay nothing for the first five years.

Baron Shidehara replied that it was the case.

Dr. Sze inquired whether it was Baron Shidehara's idea that after five years China should pay in 20 installments.

Baron Shidehara replied that he had no idea as to whether the payment should be divided into 20 or 10 or any number of installments.

Dr. Sze asked, in case China should not redeem the notes, how Japan desired the payment to be made each year.

Baron Shidehara said that that was a matter of detail. He had no idea as to how payment should be made. China might pay once a year or twice a year. Such details could easily be adjusted later.

Dr. Sze agreed that that was a matter of detail, but if it could be settled here there would be the advantage of precluding later complications. As to the period of the valuation, that had already been agreed upon. He understood that Baron Shidehara's desire was to have the treasury notes handed over to Japan upon the determination of the valuation, the period for which had been definitely decided.

Baron Shidehara wondered if the period of valuation had been definitely agreed upon. As to the period of the transfer of the railway he remembered having said nine months tentatively. He had only thought that that might be the proper period. He had said that he had no technical knowledge and just tentatively suggested nine months.

Dr. Sze pointed out that it had been agreed that:

"Such transfer shall be completed as soon as possible, and in any case not later than nine months from the date of the coming into force of the present agreement."

Baron Shidehara referred to the minutes of December 14, from which he read as follows:

"Dr. Sze suggested that six months should be tentatively adopted.

"Baron Shidehara said that he should like to refer that question to some technical expert.

"Dr. Sze said that a Chinese expert had advised him that six months would be ample time. As soon as an agreement was reached

the inventory of the properties would have to be made. After that the transfer could completely be effected in six months.

"Baron Shidehara proposed that it should be nine months tentatively. He could not tell just now without any technical knowledge just what would be the most adequate length of time, but he would like to make it nine months, subject to modification.

"Dr. Sze agreed."

Dr. Sze wondered in what connection that conversation had taken place.

(Baron Shidehara handed over the minutes to Dr. Sze.)

Dr. Sze, continuing, stated that at that moment Baron Shidehara had said that he had still lacked technical advice. He wondered whether the baron could not now give a definite period.

Baron Shidehara said that, as a matter of fact, that was not a very important point and he had not given much consideration to it. He thought, however, that the two delegations were now going to confirm what those two statesmen had told them. The period of transfer had not been touched upon in the conversations with these two statesmen.

Dr. Sze replied in the negative. He thought, however, that the conferees had reached a point where they should definitely settle all minor points. The Chinese delegation had taken it for granted that nine months was a settled period.

Mr. Hanihara asked whether Dr. Sze meant nine months from the date of the coming into force of the agreement.

Baron Shidehara said that when the question of the period had been discussed, they had adopted a formula to that effect. It was expressly provided in the agreement in that sense.

Dr. Sze wondered whether that understanding did not still hold good.

Baron Shidehara said that he had suggested nine months tentatively, and there the matter rested.

Dr. Sze wondered whether Baron Shidehara could now give the period definitely.

Baron Shidehara said that he had rather neglected that point. He had to consult a technical expert. The point could be decided very easily, anyway.

Dr. Sze inquired how soon he could get a definite answer.

Baron Shidehara said that he would reply the following day.

Dr. Sze thanked Baron Shidehara for that statement. He continued that there were two other dates to be decided. As to the general outline of the Shantung agreements to be reported to Mr. Hughes and Mr. Balfour, there would not be much difficulty in coming to an agreement. Minor points need not be touched upon in the proposed communication. He added that, as to the Japanese accountant and the Japanese traffic manager, they were to be selected and appointed by the Chinese general manager.

Baron Shidehara responded that the Chinese Government would, of course, appoint those experts, but with the concurrence of the Japanese Government.

Dr. Sze remarked that that was a new point; that was what he did not understand. He had thought that the Chinese managing director was to select and appoint those experts. That was what Mr. Hughes and Mr. Balfour had said.

Baron Shidehara thought that that point had been very well understood.

Dr. Sze said that his understanding was different. Mr. MacMurray and Mr. Lampson would know that.

Mr. MacMurray thought that the manner of appointment had not been considered. It was simply said that the expert would be appointed by China.

Baron Shidehara pointed to the wording in draft D (not attached to the minutes), which expressly stated that the selection and appointment should be made with concurrence of the Japanese Government.

Mr. Lampson said that it was stated that the Japanese experts would be selected and appointed with the concurrence of the Japanese Government.

Baron Shidehara said that the idea was simply that the best qualified Japanese experts should be appointed and the Japanese Government would be in the best position to know who were so qualified.

Dr. Sze said that he had mentioned to Mr. Hughes and Mr. Balfour that the Japanese experts should not in any sense be the agents of the Japanese Government.

Baron Shidehara said that that was entirely a different matter. The fact that the Japanese Government would give concurrence was no proof of these experts being Japanese agents. The idea was simply that the Japanese Government would be best able to recommend the best qualified men.

Dr. Sze inquired whether Baron Shidehara was saying that he (Baron Shidehara) had heard such views from Mr. Hughes and Mr. Balfour. The Chinese delegates, on their part, had never heard such a statement.

Baron Shidehara said that that was what the Japanese delegates had understood from the gentlemen who were here as observers.

Mr. Lampson said that it had quite clearly been stated that the Japanese experts should be selected and appointed with the concurrence of the Japanese Government.

Dr. Sze said that the point now raised was something new. The formula D had not been adopted. That was the understanding of the Chinese delegates.

Baron Shidehara thought that formula D had been adopted as the basis of discussion. True, some alterations had been introduced, but where no alterations had been made he had taken it for granted that the original formula had been the basis on which the Chinese delegation had proceeded. He, continuing, said that the appointment of such experts, with the concurrence of the party financing the railway, was not quite a novel idea. For instance, in the agreement between the British capitalists and the Chinese Government in regard to the Nanking-Hunan Railway, it was provided that the engineer in chief would be "chosen and appointed by the directorate general of railways of the ministry of communications with the previous consent of the corporation."

Dr. Sze remarked that the corporation and the Government were different.

Baron Shidehara stated that the Chinese delegates did not, however, agree to the idea of loan.

Dr. Sze said that such had not been his understanding.

Mr. Hanihara said that perhaps Dr. Sze had been under the impression that the Japanese Government might not give consent to the appointment of experts by the Chinese Government.

Dr. Sze said that the Chinese Government was not only to make the appointment but also to make the selection.

Mr. Hanihara said the selection and appointment would be made with the consent of the Japanese Government.

Dr. Sze remarked that "consent" was even stronger than "concurrence."

Mr. Hanihara said that he had used the word "consent" in the same sense as "concurrence."

Dr. Sze said that to his mind they were different.

Mr. Lampson presumed that the idea was to make an arrangement which would in practice work smoothly. In selecting and appointing the Japanese experts, the Chinese Government would not wish to choose any man whose selection would be disagreeable to the Japanese Government.

Dr. Sze said that the whole idea was to remove the cause of misunderstanding altogether. The Chinese delegates could not go into any engagement which might become the source of continuous misunderstanding. That was a dangerous thing.

Baron Shidehara said that if this matter were to be an ordinary loan agreement, those men would be appointed with the consent or concurrence of the capitalists interested, but the Chinese delegates had preferred the form of treasury notes. Therefore the arrangements had now to be entered into between the two Governments instead of between the Chinese Government and Japanese capitalists.

Mr. MacMurray said that perhaps he might say a few words. He would say that it was unfortunate that the point now at issue had not happened to come up when the British and the American representatives had talked the matter over with the Chinese delegates, but he had always taken it for granted that the Chinese Government would, in practical course, consult the Japanese Government in the appointment of experts in order to make sure that there should be no selection which would cause friction.

Dr. Sze said that if the points at issue had been mentioned in the understanding reached with Mr. Hughes and Mr. Balfour, it would have been all right. But as it was, he would not be able to report the matter to his Government now. What he feared was the reaction upon the people at home. They would say that the Chinese delegates had now agreed to a plan which was much worse than the one of December 19; that after Mr. Hughes and Mr. Balfour had come in, the settlement had been made worse than before. Such reaction was undesirable to all concerned.

Dr. Koo thought that this was really a practical question. In the selection of suitable Japanese for the posts, the Chinese Government would have in view the safeguarding of the Japanese interests as well as the Chinese interests. The Chinese Government would do their best to obtain the best-qualified men. He took it that the first step would be to canvass all available Japanese in the Chinese railway service. If none of them was found good enough for the important posts, then the Government would naturally, as a practical course,

turn to the Japanese authorities for information. Therefore, looked at from that practical point of view, the question would not seem one of very great magnitude. With that explanation, he thought that reference to this point in the agreement would not be at all necessary.

Baron Shidehara asked if the Chinese delegates would object to substituting the word "consultation" for the word "concurrence."

Dr. Sze said that what had been said by Mr. Balfour and Mr. Hughes had been reported by the Chinese delegates to their Government. The report had made it clear that the point at issue would not be included in the agreement. As a general principle, he thought it was not good policy, and it was repulsive to his feeling of fairness, to come back on a point upon which an agreement had already been reached.

Baron Shidehara said that the question was only a matter of practical convenience and did not in the least affect the right of the Chinese Government to select those experts. If the Chinese Government would select men not quite agreeable to the Japanese Government, difficulties might occur. The sole motive animating the Japanese delegates was that the best-qualified men should be suggested.

Dr. Sze said that he objected to the course suggested on the same ground as Baron Shidehara had based his objection on another matter. He meant to say that the clause might be a reflection upon the Chinese managing director, it being an implication that he might not make a fair selection.

Baron Shidehara said that no reflection was implied. The Japanese Government would naturally know better than anybody else who would be the best candidates. It was no reflection upon the railway management or the department of communications of China. It was only said that the Chinese Government should appoint those men upon consultation with the Japanese Government. There was nothing which would affect the sovereign rights of China. Consultation was quite a common thing among Governments.

Dr. Koo thought that, after this exchange of views, it was found that both delegations agreed in substance. The matter could safely be left to the good will and practical wisdom of the Chinese Government, because to make special reference to a point which, as a matter of practical arrangement, would be followed in any case, might unnecessarily wound the susceptibility of the Chinese people. He trusted that that was not the desire on Japan's part. In view of the stage the two delegations had already reached, he hoped that, with those explanations based upon practical considerations, the Japanese delegates would not insist upon inserting the phrase under discussion in the agreement.

Baron Shidehara said that if Dr. Koo had objections to inserting the particular phrase in the text of the agreement he might possibly agree that it should be kept in the minutes of the proceedings that, in the selection and appointment of those experts, the Japanese Government would be consulted.

Dr. Koo said that he did not wish to be punctilious as to the way of expressing it, but he wondered whether the following formula would not meet the approval of the Japanese delegates:

"The Japanese Government will be requested to give such information as may be useful to making a suitable selection."

The object was to make a suitable selection. So long as that could be secured, he thought it was sufficient. He hoped that the Japanese delegates would agree to keep the formula suggested in the depths of the minutes.

Baron Shidehara wondered whether Dr. Koo's meaning was that before the selection of experts the Chinese Government would ask the Japanese Government for information.

Dr. Koo said that that was the case. The purpose was to make it possible to select the best men available.

Baron Shidehara suggested the formula :

"In the selection of the Japanese experts upon the railway the Chinese Government will ask the Japanese Government for such information as may be useful in the making of suitable selections."

Dr. Koo accepted.

Baron Shidehara said that that would be recorded in the minutes.

Dr. Koo said that the two delegations could now consider the point as settled.

Dr. Sze said that the position of the two delegations had been made clear in regard to the question of the selection and appointment of the Japanese traffic manager as well as the chief accountant. He would further point out that they would be the employees of the Chinese Government and would be placed under the control of the Chinese managing director, who would be appointed by the Chinese Government. These two experts would not in any way be the agents of the Japanese Government.

Baron Shidehara said that that was certainly the case; they were not the agents of the Japanese Government and would be under the supervision and control of the Chinese managing director. He wondered whether there was also an officer with the title of director general in the Chinese railway administration.

Dr. Sze said that formerly there was such a post. A director general would be appointed on lines in the course of construction; but with lines finished, only managing directors would be appointed.

Mr. Hanihara said that he understood that there was some such post as that of director general in the department of communications or the department of the railways.

Dr. Sze said that the chief of the railway bureau, who was under the central ministry of communications, acted more or less as the director general. He would say a few words on one or two points in connection with the traffic manager. China had general traffic rules applicable to all Chinese railways. The intention of the Chinese delegation was that these rules should apply to the Shan-tung Railway as well. It was desirable that the best and the most suitable men should be appointed to those posts. If the Japanese experts were found to be such, all would be well; but, in case they were found not satisfactory, the Chinese Government would, of course, have the right to appoint other men.

PRESENT RAILWAY STAFF.

As to the present Japanese railway staff sufficient notice would be given them before replacement. As there would be certain lapse between the coming into force of the agreement and the transfer of

the railway, the Chinese delegates would think that the period would be sufficient notice to the men now living on the railway.

Baron Shidehara wondered if he understood correctly that China was going to give notice to the present railway staff when they were to be discharged.

Dr. Sze said that the Chinese Government could not give notice to the railway men who were Japanese employees. Between the time of the transfer and the coming into force of the agreement there might be time enough. He would suggest that as soon as the treaty came into force the Japanese Government might give notice to the railway staff.

Baron Shidehara thought that the discharge of the present railway men was a mere matter of detail, which could very easily be arranged between the Chinese and Japanese commissions.

Dr. Sze thought it advisable to agree upon a general principle in the matter.

Baron Shidehara said that the Japanese delegation was not going to make it a condition of the transfer of the railway that these men should be kept. It was a matter of convenience only. He would prefer that the matter should be left to be worked out by the joint commission.

Dr. Sze said that what he proposed was the general principle. Details could, of course, be arranged by the commission.

Baron Shidehara said that the agreement was not to contain anything which would bind the Chinese Government to retain these men.

Dr. Sze said that it was exactly so, but it would be desirable that an agreement in principle should be made regarding the railway staff, so that the Chinese Government might start operation immediately upon the transfer of the railway and the service might be continued without any interruption.

Baron Shidehara said that the principle was that there should be no Japanese employees when the transfer of the railway was completed. It would be only a matter of convenience if the managing director should decide that some Japanese should be kept at their posts for some time.

Dr. Sze said that he did not want to have it said that any Japanese employees were to remain as a matter of right.

Baron Shidehara said that so long as nothing to the contrary was provided, there was no question that no Japanese could remain on the railway as a matter of right.

Dr. Sze said that he had thought the period of notice to be given to the Japanese employees was to start from the date of the coming into force of the agreement. He wondered if it was Baron Shidehara's understanding that it would depend upon the discretion of the managing director whether any members of the Japanese staff should be retained or not.

Baron Shidehara answered that it was. He added that he presumed that it was not the Chinese intention to restrict the ordinary functions of the traffic manager. The appointment of the railway staff was, of course, to be in the hands of the Chinese managing director, but he presumed that it was not intended to limit the ordinary functions to be exercised by a traffic manager.

Dr. Sze said that there was no such intention. What he would suggest was that while the power of the traffic manager would not be

limited, he should not insist upon retaining the Japanese railway staff. On roads where foreign traffic managers were employed they did not exercise any power regarding the appointment of the railway staff.

Baron Shidehara said that certainly the staff would be chiefly selected from Chinese nationals and the appointment would be made by the managing director.

Dr. Sze said that in the employment of foreign nationals the extra-territorial right enjoyed by them and the question of wages had to be taken into consideration. There was no intention to discriminate against the present employees, but efficiency was the great point.

Baron Shidehara asked if his understanding was correct as regarded the main points of the whole question.

Dr. Koo asked to what Baron Shidehara was referring.

Baron Shidehara said that Dr. Sze had mentioned the suggestions of Mr. Hughes and Mr. Balfour as to the settlement of this railway question. It seemed there were some points of difference between the Chinese statement and his understanding. For instance, with regard to the question of the chief accountant, he and his colleagues had understood that there would be coaccountants—one Chinese and one Japanese—who were to act together, both with the same functions.

Dr. Sze said that he had no objection to that understanding.

Baron Shidehara asked what would be the name of the two co-accountants.

Dr. Koo said that both could just be called "accountant." The Chinese understanding was that the Chinese accountant should be associated with the Japanese accountant with coordinate power. Referring to the question of the present employees, he thought that the views of the Japanese and the Chinese delegations coincided. That was to say, with the transfer of the railway the Chinese authorities would have the full power and discretion to remove or continue the present staff, as they saw fit. The period of time between the date of the coming into force of the agreement and the transfer of the railway should be considered as a due notice in case of removal.

Baron Shidehara said that with regard to the question of notice he had not meant to say that the period between the enforcement of the agreement and the transfer of the railway would be sufficient notice. It was not his intention to express an opinion on the matter. It was a matter of convenience and could be arranged later. The question of appointment or discharge of these men was in the hands of the Chinese managing director. If that point was made clear, he did not think it necessary to discuss as to what would be a proper notice of discharge.

Dr. Sze said that when the line was transferred, even in part, the operation of the traffic department would have to start immediately.

Dr. Koo said that on this question of notice perhaps some expression would be desirable, so as not to take the present employees by surprise. He would suggest wording it thus:

"It is understood that on taking over the railway the Chinese authorities shall have full power and discretion to continue or to remove, as they see fit, the present employees of Japanese nationality in the service of the railway, and that the time between the

coming into force of the present agreement and the transfer of the railway may be considered as due notice."

He thought that in all probability a certain class or number of Japanese employees would have to be replaced by Chinese. That was naturally to be expected. The Chinese delegation therefore wanted to have that class of employees prepared, more or less, beforehand, so that they could not very well say that sufficient notice had not been given them. It was equally possible that in certain departments it would not be necessary to replace the present employees immediately on taking over the railway. The phraseology proposed by him would serve the purpose in either case.

Baron Shidehara wondered if it was Dr. Koo's idea to have that clause incorporated in the text of the treaty.

Dr. Koo said that he had not thought about that point.

Baron Shidehara said that he did not think it necessary to refer to the present employees. The Japanese idea was that all that the treaty should provide for was the question of the appointment of the two railway experts, the traffic manager, and the accountant. The question of notice or how many months should be allowed the men was a matter of too much detail. He was not prepared to give an opinion, because he did not know anything about railway practice.

Dr. Koo said that the Chinese proposal was simply to facilitate the transfer on one side and the taking over on the other side. If Baron Shidehara preferred to have it recorded in the minutes instead of the treaty, he would have no objection.

Baron Shidehara asked if it was the Chinese intention that the Japanese authorities should give a wholesale notice to all the employees.

Dr. Koo replied in the negative. It seemed to him advisable that in order to protect the interest of the present employees they should be prepared for possible replacement. If the matter should be left aside, it might be awkward for them. It would be much better that caution should be given them. If some of the present employees should be allowed to remain after the transfer of the railway, it would be in the nature of a pleasant surprise to them. If there were no caution, those who were to be replaced would feel wronged.

Baron Shidehara said that the question of who and how many should be retained could not be decided here. The matter would have to be decided by the Chinese managing director and the Japanese authorities. It would be impossible to give notice unless it had been decided who should be retained. If notice had once been given and then it should be decided that some of the employees should be retained, difficulties might arise because some of those men might not desire to stay. The matter could best be left to the arrangement between the Japanese and Chinese commissions.

Dr. Sze said that if no notice had been given it would mean that when the two commissions met the Chinese Government was under a sort of obligation to keep the Japanese employees. When it had been decided that a Japanese traffic manager should be employed it had been stipulated that his staff should be composed of Chinese, except his personal aids, such as secretaries and stenographers.

Dr. Koo said that as a matter of practical arrangement he thought the question of who or how many of the present employees should be replaced would have been arranged long before the transfer of the railway. The idea was to give adequate notice to those who would be replaced. If nothing had been said here as to the matter of notice, both the Japanese and the Chinese authorities would be unable to give adequate notice for any replacement to take place on the date of the transfer.

Baron Shidehara wondered if it was Dr. Koo's idea that notice should be given only to those who were to be retained after the transfer.

Dr. Koo said that in practical application those who would be replaced would have received notice. If nothing was said on the point here, it would be impossible to discharge the present employees by giving them even a day's notice.

Baron Shidehara said that when the commissions met it would be decided who or how many should be retained.

Dr. Koo said that in all probability the Chinese authorities, before the transfer of the railway, would have prepared a list on the matter and would have organized a Chinese staff. They would be ready to pass the information on to the Japanese authorities as much in advance as possible before the transfer.

Baron Shidehara said that without such a list it seemed impossible for the Japanese authorities to give notice to their employees. All Japan could do was to give a full notice of discharge on the date of the transfer. If the list could be given a long time in advance sufficient notices could be given, but if it should come only a day or two before the transfer that would be unfair to the Japanese employees.

Dr. Sze asked how long a notice had been given to the Chinese employees when Japan had taken over the railway from Germany.

Baron Shidehara said that he did not know anything about it, but he thought all that could be arranged here was that to those who were to be retained reasonable notice should be given.

Dr. Sze said that the notice which had been given to the Chinese employees on the same railway would be considered a reasonable notice in the case of the Japanese employees also.

Baron Shidehara said that he had no special knowledge of railway practice, but that it occurred to him that it depended on the kind of posts held by the Japanese employees. In the case of a daily worker, for instance, the notice could be very short, but in the case of those occupying more important posts a longer time would be needed.

Dr. Sze said that it was true, but what, for instance, a Chinese mechanic had been given might justly be given to a Japanese mechanic.

Baron Shidehara asked if the Chinese delegates did not think that the question might be left to arrangement between technical men on both sides.

Dr. Sze said that an agreement might be made on general principles here.

Baron Shidehara said that the principle was that a notice fair and reasonable to all should be given.

Dr. Sze asked what was the usual amount of notice given in Japan in such a case.

Baron Shidehara said that so far as he knew there was no definite regulation about the notice to be given in such a case. The matter was of too technical a nature and all that could be arranged here was that reasonable notice should be given the Japanese employees.

Dr. Sze said that it was not exactly a technical question, but rather a question of general principle. To avoid the possibility of misunderstanding it seemed advisable that some understanding should be reached here so that there might not be any hitch in the transfer of the railway.

Baron Shidehara said that in Japan, in the case of a Government official, unless charged with some unlawful act, he is, on dismissal, placed on a list of reduced pay for a period of two years.

Dr. Sze said that in China an employee could be instantly dismissed for misconduct or a violation of the terms of contract, and even passage money could be refused in case of a foreigner. In case of stoppage of engagement, employees were given uniform notice of one month, though in the case of foreigners it depended upon the terms of the contract. In view of the fact that the Shantung Railway men were Japanese Government employees, the Chinese Government would be under no obligation to give allowance to them for two years. Still, it would be better to have some understanding on the point. The idea was to avoid dispute or misunderstanding.

Baron Shidehara said that the difficulty was that it did not seem practicable to decide all these minor questions. In regard to the railway employees, the only principle that could be adopted was that a fair and reasonable notice should be given them. As to the length of time or the exact conditions of discharge, such as the allowance to be given, it was impossible to take up the matter here.

Dr. Sze asked if Baron Shidehara expected the Chinese Government to give the railway employees monetary allowance.

Baron Shidehara said that in Japanese practice allowance was given in such a case.

Dr. Sze asked if it was given in case no notice was given.

Baron Shidehara said that in the case of Government officials no notice was given, but they were entitled to allowance for a certain number of years. It was rather a complicated question.

Dr. Sze said that as to the traffic manager and chief accountant, the appointment would cease if everything went well and the Chinese Government redeemed the treasury notes. They would not stay long on the railway.

Mr. Hanihara asked if Dr. Sze was referring to the tenure of office of these men.

Dr. Sze said that his point was that these men were not to be bound by the Japanese civil-service rule.

Baron Shidehara said that he was only giving the actual practice in Japan.

Dr. Koo said that as to the question of giving notice to the Japanese employees, both sides agreed that such notice should be given; at least, on the Chinese side they would give notice before replacement. The question centered on one point. There were certain posts which it would be necessary to fill with Chinese nationals as soon as the railway had been taken over. To those Japanese who were now occupying such posts notice would be given before the date of the transfer. He thought that was the understanding.

Baron Shidehara asked if a list would be given the Japanese authorities.

Dr. Koo said that information would naturally be furnished to the Japanese authorities so that they could give the necessary notice.

Baron Shidehara assented.

Dr. Koo said that he would now modify his formula as follows:

"It is understood that on taking over the railway the Chinese authorities shall have full power and discretion to continue or remove the present employees of Japanese nationality in the service of the railway, and that reasonable notice may be given before the date of transfer of the railway."

Baron Shidehara said that the notice would be given, of course, by the Japanese authorities. After the transfer it was the Chinese, but before it was the Japanese, authorities who would give the notice.

Dr. Koo agreed and asked if the matter might now be considered as agreed upon.

Baron Shidehara said that he thought the formula acceptable. It was understood that it was to be recorded in the minutes, being only a matter of detail. Moreover, the details of the matter had to be worked out by the Japanese and Chinese authorities.

Dr. Koo said that there was no detail except the transmission of information to the Japanese authorities. He presumed that it was not the Japanese intention to deliberate with the Chinese authorities as to what posts were to be replaced with Chinese.

Baron Shidehara said that it was not, but that should some of the men who were intended to be retained want to go home, then the Japanese railway authorities might suggest others who would be willing to stay; such details had to be arranged, anyhow. The Sino-Japanese joint commission would have to arrange these matters in the interests of the railway.

Dr. Koo said that he did not quite understand what Baron Shidehara meant by details. Speaking generally, he believed that the Japanese authorities would transmit to the Chinese authorities such information as they had concerning the intentions of the employees. The Chinese plans would have to depend on the information of that nature.

Baron Shidehara said that it was so, but that the two delegations could not say here what, for instance, would be the reasonable notice to be given to the employees. Again, it might be that in case A and B should not desire to stay with the railway, C and D, equally qualified for the particular posts, might be retained. Such matters could not be decided here.

Dr. Koo said that in such a case, C and D might not be equally acceptable to China. The question was one of practical application. As soon as the Japanese authorities received a list from the Chinese authorities, the Japanese authorities might prepare information for the Chinese authorities and might even suggest modifications in the Chinese plans. There was nothing in the proposed draft which would prevent such a step being taken by the Japanese authorities.

Baron Shidehara said that it was not merely a question of information. If, for instance, the Chinese authorities suggested a week's notice, the Japanese authorities would naturally say that one week was not enough. Such matters had to be settled between the Japanese and Chinese authorities.

Dr. Koo asked Baron Shidehara if the Japanese anxiety was as to what constituted a reasonable notice.

Baron Shidehara said that it was not only that but that he would like to have some provision for matters that might arise in carrying into effect the present agreement. The Japanese authorities would be placed in an impossible position if all matters were specifically decided here. The Japanese delegation had no hidden motive whatever. But they had no knowledge of railway practices. It must naturally be anticipated that some questions would arise regarding the disposition of these railway men which had necessarily to be left to the arrangement on the spot.

Dr. Koo said that this question of the appointment of the railway staff might safely be left to local arrangement, but he wondered if that would be necessary to be mentioned in the agreement. He wanted to know what detailed arrangement Baron Shidehara had in mind. Should there be made a special provision on this point, it would give the impression that there were numerous points to be settled by the local authorities, which was not exactly the case.

Baron Shidehara said that there was at least one point to be so settled—that was to say, the question of notice.

Dr. Koo wondered how Baron Shidehara proposed to word that point.

Baron Shidehara said that he would simply say, "Details shall be arranged by the joint commission on the spot."

Dr. Koo proposed the following:

"Detailed arrangements regarding the notice to be given to the present railway staff are to be made by the Chinese and Japanese joint commission."

Baron Shidehara said that the difficulty was that it was not known if the question of notice was the only point requiring arrangement.

Dr. Koo asked if Baron Shidehara had any other point in mind.

Baron Shidehara said that he had no particular point in mind, but that there might be other questions.

Dr. Koo supposed that it was of course understood that the question of notice and replacement after the railway had been taken over was to be decided by the Chinese authorities. He thought that Baron Shidehara was only referring to the replacements to be effected immediately upon the transfer of the railway. In other words, the mutual idea might be expressed by the following:

"Detailed arrangements concerning replacements to take effect immediately upon the transfer of the railway to China are to be made by the Japanese and Chinese authorities."

Baron Shidehara agreed that the above understanding should be kept in the minutes.

Dr. Koo pointed out that this understanding was in addition to the one proposed by him. Then, concerning experts, he understood that the two delegations were agreed substantially, and he had made a draft as follows:

"Pending the redemption of the said treasury notes, the Chinese Government will select and appoint for so long a period as the said notes shall remain unpaid a Japanese national to the post of traffic manager and another Japanese national to the post of accountant, to cooperate with the Chinese accountant, all under the direction, con-

trol, and supervision of the Chinese managing director, and removable for cause—it being understood that this arrangement does not preclude the appointment of a Chinese traffic manager to assist the Japanese traffic manager at the end of two and one-half years from the date of the transfer of the railway to China; and, further, that the entire subordinate staff, which is to be composed of Chinese nationals, except the private clerical staff of the said traffic manager, which may be of another nationality, is to be appointed by the said Chinese managing director.”

He wondered whether the proposed draft represented fully the substance of the understanding between the two delegations.

Baron Shidehara wondered if Dr. Koo was making a provision in the sense that only the clerical staff of the traffic manager should be retained in the service of the railway. He did not exactly understand the proposed draft read to him, but the latter part of the draft seemed to imply that only the clerical staff of the traffic manager was to be filled by Japanese nationals.

Dr. Koo said that his draft had been made to reproduce correctly the understanding which the two delegations had concerning the subordinate staff. The draft did not preclude the Chinese Government from employing any other nationals in the service of the railway, but, in order not to allow any misunderstanding to arise, he thought it wise to draft the matter in the way proposed by him.

Baron Shidehara said that it was, of course, understood that the power of appointment rested with the Chinese Government, but he did not think it necessary to say that only the clerical staff would be appointed from among the Japanese nationals. It was a matter of convenience only; the selection and appointment of the subordinate staff must be left to the discretion of the Chinese managing director. The proposed draft might seem to imply that the private clerical staff of the traffic manager was not to be appointed by the Chinese managing director.

Dr. Koo said that his draft might be incomplete in wording, but he did not mean that the clerical staff should not be appointed by the Chinese managing director.

Baron Shidehara wondered if Dr. Koo could not agree to the suppression of the entire concluding paragraph. It was not necessary to say that “the entire subordinate staff was to be composed of Chinese nationals, etc.,” or that it would be only the “private clerical staff” of the traffic manager, which would be composed of Japanese nationals. There might be Japanese nationals who would be appointed to other posts than the traffic manager’s private staff, but so far as there was no special clause in the agreement Japan had no right to insist upon Japanese nationals being appointed to such posts.

Dr. Koo said that with regard to the nationality of the traffic manager’s private clerical staff, there was nothing fixed in the draft, the wording being that such staff “might be of another nationality.”

Baron Shidehara pointed out that Dr. Koo’s formula said that the entire subordinate staff, except only the clerical staff of the traffic manager, should be composed of Chinese nationals. He did not see any necessity of reference being made to the composition of the subordinate staff.

Dr. Koo said that both Mr. Hughes and Mr. Balfour had confirmed the Chinese understanding that in undertaking to appoint a Japanese national to the important post of traffic manager, China was not obliged to give the subordinate posts in the traffic department likewise to Japanese nationals. The giving of that important post to a Japanese was bound to give rise to a great deal of apprehension on the part of the Chinese people and it was partly for that reason that the Chinese delegates for the last six weeks had been taking the position that the post should be filled by a Chinese national. As had been stated, however, by his colleague, as evidence of their spirit of conciliation and of their desire to bring these conversations to a happy conclusion, the Chinese delegates were now disposed to accept the Japanese proposal to have Japanese nationals for the posts of traffic manager and chief accountant. They felt certain that such appointments would rouse strong opposition from their people. In order to enable themselves to make some explanation, they considered it wise and necessary to make clear the point concerning the subordinate staff.

The general impression was that the traffic manager of any line controlled, to a large extent, the whole traffic department of that particular line. The reason why the Chinese delegates were now referring to the subordinate staff in this connection was because they felt certain that the Japanese delegation did not wish to lend color to any criticism that while Japan proposed to hand over the railway to China, on the one hand, she was still seeking, on the other hand, to maintain control over it. Therefore a clause of the kind now proposed was almost indispensable. Unless he was mistaken, the two delegations were agreed so far as the substance of the clause was concerned. He understood that the Japanese delegation merely did not wish to incorporate an express provision regarding the subordinate staff in this paragraph.

Baron Shidehara stated that the idea was that Japan had no intention of insisting, as a matter of right, upon the appointment of Japanese nationals to posts other than the two agreed upon. It was a mere question of convenience. Other foreigners than Japanese might just as well be appointed as members of the subordinate staff, the ultimate control always remaining with the Chinese managing director. Should it be found useful to employ Japanese nationals in some posts, the matter might easily be arranged between the Japanese traffic manager and the Chinese managing director. It did not seem necessary, in his opinion, to have any provision at all in this respect. When it was simply provided that the two posts specifically mentioned were to be filled by Japanese nationals it would not be necessary to say that other posts would not be so filled.

The wording itself seemed to imply that only the posts of traffic manager and chief accountant would be held by Japanese nationals. He did not see why any further restriction should be needed. The Chinese delegates could well explain to their people that it was agreed that the positions of traffic manager and chief accountant should be filled by Japanese nationals and that the whole matter of the appointment of subordinate staff should rest in the hands of the Chinese managing director.

Dr. Sze said that the Japanese traffic manager was not to be an associate traffic manager with a Chinese coordinate official. There-

fore there was apprehension on the part of the Chinese people that he might bring with him a big staff of Japanese, so that there might be no Chinese under him. If it were not expressly stated, the Japanese manager might try to fill his office with Japanese nationals. Not that he imagined that such would be the Japanese intention, but in the case of other roads where there were foreign traffic managers there generally were assistant Chinese managers and also all chiefs of sections were Chinese. The Chinese delegation wanted to make it clear that the same would be the case with the Shantung Railroad, and that the appointment of Japanese nationals to the two posts did not mean that other posts should likewise be filled by Japanese.

Baron Shidehara said that it was not at all the case; that even those two officials would be under the control of the Chinese managing director.

Dr. Sze said that it was clear in the minutes, but he was afraid that misunderstanding might arise.

Baron Shidehara thought it was not necessary to say that all the other posts should be filled by Chinese. There was another point to which he desired to call the attention of the Chinese delegation. In the Chinese draft it was said that a Chinese traffic manager should be appointed to *assist* the Japanese traffic manager. He hoped it was understood that this Chinese traffic manager was an assistant traffic manager, not having the full authority of a traffic manager.

Dr. Koo asked if there was any objection to the word "assist."

Baron Shidehara said that he would suggest saying, for instance, "appointment of a Chinese assistant traffic manager, under the Japanese traffic manager." It was thoroughly understood that such a Chinese assistant traffic manager might be appointed only for a period of two and a half years. Of course, if China exercised her option of redemption at the end of five years, this agreement in regard to the appointment of the Chinese assistant traffic manager would cease to be effective. Unless such option were exercised and China gave notice of redemption, he was to be automatically discharged at the end of that period. He would therefore suggest the following wording for that part of the Chinese draft:

"It being understood that after two and one-half years from the date of the transfer of the railway to China, the Chinese Government may appoint an assistant traffic manager of Chinese nationality, under the Japanese traffic manager, for the period of two and one-half years, and that such Chinese assistant traffic manager may also be appointed any time after notice of redemption is given."

Dr. Koo said that that showed that the Japanese delegation attached great importance to the post of traffic manager. The Chinese idea was that if a Japanese traffic manager was considered necessary for the interests of 3,000 Japanese in Shantung it would be much more the case for the interests of 30,000,000 Chinese people in the same Province. In order to make any satisfactory explanation to them it would be all the more necessary to expressly provide that the subordinate staff of the traffic manager should consist exclusively of Chinese nationals. That would serve to diminish the effect which would be produced upon the Chinese feeling by giving the control of the traffic department to a Japanese national.

Baron Shidehara thought he had made the Japanese position sufficiently clear in that respect. The traffic manager was to be under

the control of the Chinese managing director and there could possibly be no inference that Japan was to control the railway itself.

Dr. Koo said that the Japanese delegation, however, seemed to consider the post of the traffic manager so important as to insist upon saying Chinese "assistant" traffic manager.

Baron Shidehara thought it was not necessary to revert to old questions discussed over and over again. Japan certainly placed much importance upon the question of Japanese traffic manager, who should be empowered to exercise the ordinary functions of a traffic manager to the full extent.

Dr. Koo said that the point he wished to emphasize was that the provision regarding the subordinate staff of the traffic department was necessary in view of the fact that the traffic manager was to be a Japanese national. He had supposed that such an express provision would be to the advantage of Japan, too, because it would serve to remove ground for popular apprehension that the traffic department would be in entire control of Japanese nationals.

Dr. Sze said the matter was well understood and the Chinese delegation was only proposing to put it in a written form and was not asking for anything new.

Baron Shidehara said that he had never understood that this question of the composition of the traffic manager's staff should be defined in the agreement itself. When it was provided that a Japanese traffic manager was to be appointed there was no reason to infer that all his staff would be Japanese. He wondered what reason there could be for any such inference. The Chinese delegation could well explain that it was only these two posts to which Japanese nationals were to be appointed.

Dr. Koo said that, as Dr. Sze had just stated, the Chinese delegation was bringing out nothing new. It was an understanding which was part of the agreement. It was upon that basis that the Chinese delegates had agreed to the whole arrangement.

Mr. Hanihara said that, according to this draft proposed by the Chinese delegation, it was very clear that the Japanese traffic manager should be under the entire control of the managing director. Supposing the Japanese traffic manager wanted to have Japanese nationals put in some posts, he could not do anything if the managing director said "No." It seemed perfectly clear that whenever he wanted to do something it must be approved by the managing director. Not only was there no necessity of any such express provision, but it appeared to him that such a clause would give a very undesirable impression. It might be taken as a sort of exclusion clause. It would not be necessary, because if the Chinese managing director did not think it advisable to employ any Japanese he could just say so. If he thought it advisable he could say so, too. It was not at all necessary to put restriction upon that point, because the Japanese traffic manager could not act independently of the Chinese managing director.

Dr. Koo said that the provision in question was only part of the whole paragraph. The first part of that paragraph dealt with the exclusion of the Chinese traffic manager and the inclusion of a Japanese traffic manager. To counterbalance the first part, it was necessary to say that the subordinate staff should be composed exclusively of Chinese nationals.

Mr. Hanihara said that it was a Chinese railway; that it was under the Chinese control. Whomever China employed must be Chinese employees, no matter whether they were Japanese, British, or American nationals.

Dr. Koo said that as a matter of fact a question of this kind hardly occurred in any other country. In an ordinary case both the chief accountant and the traffic manager could safely be left to the Government of the country in which the railway operated. This was an abnormal case, and if the Japanese attached importance to the post of traffic manager and insisted upon inserting an express provision therefor in the treaty, he did not see why there should not be another provision (restricting) the subordinate staff.

Dr. Sze said he understood that there was an agreement in substance between the two delegations, but that his Japanese friends only objected to the repetition of a matter well understood.

Mr. Hanihara said that the Japanese objection was not confined to that point only. To his mind this clause carried an inadvisable impression. It was a clause for the exclusion of Japanese nationals.

Dr. Sze said that the Chinese delegation might equally raise difficulty in regard to the clause concerning the traffic manager.

Baron Shidehara said that in her ordinary railway loan agreements China had already agreed that the traffic manager and chief accountant should be appointed upon recommendation of foreign capitalists. In the present agreement nothing of the kind was stated about the appointment of the traffic manager. It was rather a concession on the part of Japan.

Dr. Sze said that it contained a limitation upon the appointment of the Chinese traffic manager. What Baron Shidehara called "concession" was not in fact a concession but a limitation.

Baron Shidehara said that they were talking about the subordinate staff.

Dr. Sze said that he had been talking of the limitation placed upon the appointment of the Chinese traffic manager.

Baron Shidehara wondered if the clause concerning the assistant traffic manager was objectionable to the Chinese delegation.

Dr. Sze said that the Japanese delegation objected to Dr. Koo's draft and proposed to substitute it with their formula.

Baron Shidehara said that the two drafts were practically of the same meaning on that point. The Chinese traffic manager was understood to be an assistant traffic manager.

Dr. Koo asked if the Chinese delegation was to understand that the Japanese delegates did not wish to have this clause included in the agreement.

Baron Shidehara said that, as Mr. Hanihara had just stated, the Japanese delegation thought the insertion of that kind of exclusion clause would create a bad impression. They did not want to have such express understanding recorded even in the minutes of these proceedings. It was, of course, understood that the members of the subordinate staff should be appointed by the Chinese managing director, but he and his colleagues could not see their way to agree to any arrangement by which Japanese nationals should be excluded expressly from the service of the railway, even in a subordinate capacity.

Dr. Sze said that he thought Japan was not claiming more than those two posts.

Mr. Hanihara said that the Japanese position was that they did not desire to stipulate anything that might exclude Japanese.

Dr. Sze thought that the two things seemed inconsistent with each other.

Baron Shidehara observed that when it was stated that the traffic manager's staff should consist exclusively of Chinese, except the manager's personal clerical staff, it was a kind of exclusion clause. While Japan did not insist as a matter of right that the Japanese nationals should occupy subordinate posts, Japanese nationals might be appointed in practice to some posts in the traffic department. The matter could be left to common sense.

Dr. Koo said that if the Japanese delegates considered the last clause as in the nature of an exclusion clause, it must be pointed out that it was only a sequence of the first part of the paragraph. If there were to be no exclusion of Chinese nationals to the post of traffic manager, the clause could be omitted. The Chinese delegates were willing to agree, if the whole clause was to be eliminated.

Baron Shidehara said that Japan did not intend to insist upon subordinate posts being filled by Japanese. There could be no inference at all of that kind. She had no intention of insisting upon the appointment of her nationals to subordinate posts in the service of the railway.

Dr. Sze asked if by "insisting" was meant "asking."

Baron Shidehara said that there was no intention of insisting or claiming as a matter of right.

Dr. Sze said that, as far as he could see, the Japanese objection was merely in the point of drafting.

Dr. Koo asked if he was to understand that his Japanese colleagues objected to the phrase "except the personal clerical staff, etc.," as conveying the idea of exclusion.

Baron Shidehara said that it was not so. They preferred elimination of the whole clause regarding the subordinate staff, the whole latter part of the Chinese draft. He wondered how the following would strike the Chinese delegation:

"It is further understood that the entire subordinate staff of the traffic manager should be appointed by the said Chinese managing director."

Dr. Sze said that it might give the inference that the Chinese managing director had no power in regard to other departments.

Baron Shidehara said that that was, of course, understood, but if it was said that the subordinate staff should be appointed by the managing director there would be no fear that the Japanese traffic manager would carry with him a large Japanese staff.

Dr. Koo thought that the Chinese understanding as stated here was correct. He did not understand why the Japanese delegation found it difficult to accept the wording in this respect, which was proposed for the same reason as they had in proposing their modification concerning the wording about the Chinese traffic manager. If they would accept the Chinese wording in the latter respect, the Chinese delegates would be ready to agree to the Japanese point of view in regard to the subordinate staff. The two delegations had

much the same difficulty on their respective points. As to the understanding that the appointment of the Chinese traffic manager was to terminate at the end of two and a half years if there should be no redemption, the Chinese delegation was ready to agree.

Baron Shidehara wondered what modified draft the Chinese delegation would suggest on the other points.

Dr. Koo said that the modified draft would read the same, except that what occurred in the middle of the latter part of the whole paragraph would be omitted, and that the matter suggested by Baron Shidehara regarding the period of appointment of the Chinese traffic manager would be added.

Baron Shidehara said that he thought it was not the Chinese intention that the Chinese traffic manager should have the same authority as the Japanese traffic manager.

Dr. Koo said that the phrase "to assist the Japanese traffic manager" was used advisedly. In the case of the chief accountant the word "cooperate" was used.

Baron Shidehara thought it was understood that the Chinese traffic manager was not to have the same functions as the Japanese traffic manager.

Dr. Sze said that he was not to be in the same position as an associate traffic manager.

Baron Shidehara wondered why in that case there should be any difficulty to use the words "assistant traffic manager."

Dr. Koo thought the Chinese way of putting it would be less objectionable, although in substance the two delegations were quite agreed. The Chinese difficulty in this point was the same as the Japanese difficulty in regard to the subordinate staff. In the latter point the two delegations were also agreed, but the Japanese delegation did not desire to express it the way the Chinese delegation proposed.

Baron Shidehara suggested omitting the phrase "under the Japanese traffic manager" from the Japanese draft.

Dr. Koo said that since the hour was getting late he hoped that the Japanese delegation would accept the Chinese wording in regard to the traffic manager, and he and his colleagues would agree to omit reference to the subordinate staff, while recording both understandings in the minutes.

Baron Shidehara said that in any case it was getting too late and that the matter might perhaps be postponed until to-morrow.

Dr. Koo asked if the matter might be considered as agreed upon.

Baron Shidehara asked what the Chinese idea was.

Dr. Koo said that it was that the Chinese wording concerning traffic manager should be accepted and that reference to the subordinate staff should be left out.

Baron Shidehara proposed to say "Chinese assistant traffic manager," and then to state in the minutes that Japan had no intention of claiming the appointment of Japanese nationals as members of the subordinate staff on the railway.

Dr. Koo said that as to the subordinate staff the Chinese delegation had already accepted Baron Shidehara's modified draft reading, "It being further understood, etc." The Chinese understanding was that the said staff would be composed entirely of Chinese nationals.

Baron Shidehara said that the Japanese delegation could not agree even in the minutes that the entire subordinate staff should be composed of Chinese nationals. They could simply say that Japan had no intention of claiming the appointment of her nationals to subordinate posts. Such appointment, however, must be left to the Chinese managing director. Japan had no intention to make any such claim as a matter of right.

Dr. Sze said that was liable to be misunderstood. He thought Japan did not expect such appointment either.

Baron Shidehara said that it was not a question of right but only one of convenience. The matter could very well be arranged between the Chinese managing director and the Japanese traffic manager. He expected, however, that Japanese nationals would be appointed to certain posts outside the personal clerical staff of the Japanese traffic manager.

Dr. Sze said that Baron Shidehara was stretching the meaning. The Chinese delegation had no such idea.

Baron Shidehara said that the position of the Japanese delegation was that it was not advisable to provide here expressly that Japanese nationals would be employed only upon the clerical staff.

Dr. Koo asked if he understood that the Japanese delegation did not wish any clause expressly debarring the Japanese subjects from being employed on the subordinate staff, although they would understand that because the traffic manager was a Japanese it did not necessarily mean that Japanese nationals should be enlisted in his staff.

Baron Shidehara said that Japan had no intention to claim the appointment of her nationals to the subordinate staff.

Dr. Koo said that in that case the Chinese delegation would meet the Japanese point of view and yield on this question, and simply say, "Japan has no intention of claiming the appointment of Japanese nationals to the subordinate staff."

Baron Shidehara asked if Dr. Koo proposed to insert that in the treaty.

Dr. Koo said that the whole thing was intended to be recorded in the minutes.

Baron Shidehara said that the clause relating to the assistant traffic manager was to be incorporated in the treaty, and the understanding that Japan had no intention of claiming the appointment of Japanese nationals as members of the subordinate staff was to be recorded in the minutes.

Dr. Koo said that he must frankly state that the Chinese delegation did not especially like to have the privilege of having that other clause about the traffic manager inserted in the treaty itself. They should like to have that relegated to the minutes also.

Baron Shidehara asked if it was the Chinese proposal to have the draft end at "removable for cause."

Dr. Koo answered in the affirmative.

Baron Shidehara agreed.

He remarked that when he had said that Japan had no intention of claiming, it meant that she had no intention of claiming as a matter of right.

Dr. Koo said that as a matter of course the Japanese Government had no right to claim such appointment, after the railway had been transferred to China.

Dr. Sze said that it might be a matter of redundancy, but he would point out that the same thing applied to the chief accountant's office. He thought the matter went without mentioning.

Baron Shidehara said that the office of the chief accountant was different. There were to be two men at the head of the department.

Dr. Koo said that the appointment of the subordinate staff was in any case to be made by the Chinese managing director. It might not be necessary to enter into discussion on that point.

Baron Shidehara agreed.

Dr. Koo, regarding that part of the Chinese draft which dealt with the chief accountant, suggested changing the original wording to "to be a chief accountant with the same functions as a Chinese chief accountant."

Mr. MacMurray suggested "to be chief accountant jointly with a Chinese chief accountant, with coordinate functions."

Baron Shidehara said that the phrase "removable for cause" was rather out of place.

Dr. Koo said that it was an established legal expression.

Baron Shidehara said that he knew it was, but the question was whether it would be necessary. The matter went without saying.

Dr. Koo said that in the former part of the paragraph the period of appointment was mentioned. If there was no such phrase, it might be taken as if such appointment were for the whole period of five years. Such a phrase might serve to safeguard the railway against misconduct on the part of the Japanese experts.

Baron Shidehara said that he had no serious objection to the phrase. He thought that it was understood the redemption was not to be effected with funds borrowed from foreigners; that China had no intention of redeeming her treasury notes with funds raised from any foreign source.

Dr. Koo said that he supposed what Baron Shidehara called "foreign sources" did not exclude Chinese nationals abroad. He would say that it was also understood on the Chinese side (and he hoped on the Japanese side, too) that after the agreement took effect the Japanese railway administration would enter into no agreement or contract which would not be capable of being executed before the transfer of the railway to China, and that in regard to existing contracts and other commitments into which the present railway administration had entered and which might conflict with the railway interests, the said railway administration would see to it that arrangements should be made in time to put an end to them by the time the railway was to be taken over by the Chinese Government. He was only referring to this matter in order to simplify the process of transfer of the railway.

Baron Shidehara said that he supposed the railway authorities would have to buy materials needed for necessary repairs. Otherwise the railway could not work.

Dr. Sze said that it was desired that the Japanese railway authorities should make due estimates of the requirements of the rail-

way, so that there might not be too much material left unused at the time of the transfer. On the other hand, if there should be special contracts with Japanese subjects by which the railway authorities had given special rate, it would be necessary to have them stopped.

Baron Shidehara said that he could, of course, say that the railway authorities would not enter into any new contracts which were unnecessary or which would prejudice future administration of the railway by the Chinese authorities. It was, however, quite evident that if there should be any repairs required the present authorities could effect them. There was no intention on Japan's part to conclude contracts which would be prejudicial to the interests of the railway. As regarded the existing contracts, it was quite a new question, which the Japanese delegation had not considered, and they did not know what to say on the subject. The matter could very well be arranged on the spot at the time of the transfer.

Dr. Sze said that if there were any contracts by which facilities of a particular character were granted to Japanese nationals in discrimination against other nationals, he assumed that such contracts would be ended before the transfer, because the matter involved the principle of open door and equal opportunity.

Baron Shidehara said he could not conceive of any such contracts as were against the principles of open door and equal opportunity. He then said that the question of period regarding the treasury notes had not been formally agreed upon yet. He thought that the two delegations had yet to agree upon the precise formula regarding the transfer of the railway.

Dr. Koo agreed that there should be another meeting for the purpose of putting it in a formula. As to the question of period, he wondered if there would be any objection to pro rata payment; that was to say, the whole period being 15 years, would Japan accept one-fifteenth payment yearly for the first five years?

Baron Shidehara answered in the negative. He said that that point had been disposed of. Within the first five years there was to be no redemption at all.

Dr. Koo said that there was to be no redemption of the whole amount, but perhaps there might be part redemption.

Baron Shidehara said that no part of the treasury notes could be redeemed during the first five years. In regard to the matter of security, there was no objection on the Japanese side to making the treasury notes secured on the properties and revenues of the railway. The Japanese idea was that the valuation of the railway and the properties appurtenant thereto was to be made by the Sino-Japanese joint commission on the basis already agreed upon. The Chinese Government would be at liberty, any time after the report of the joint commission was made, to take over the railway and the appurtenant properties on the deposit of Chinese Government treasury notes secured on the properties and revenues of the railway, and running for the period of 15 years, but redeemable at the option of the Chinese Government at the end of the fifth year, or any time after the lapse of five years from the date of the transfer.

Dr. Koo said that the Chinese delegation understood that there was to be no notice of redemption.

Baron Shidehara said that it was so if the Chinese Government were to effect redemption at the end of the fifth year, but after the lapse of five years notice must be given for redemption.

Dr. Koo said that, that being the case, the wording should be "redeemable at the end of five years and at six months' notice any time after the lapse of five years from the date of transfer."

Baron Shidehara said that a draft should be made taking into consideration the decisions reached on December 14. Reverting to the question of the subordinate staff of the traffic department, he said that the Japanese position was that Japan had no intention to claim such appointment as a matter of right.

Dr. Koo said that the Chinese delegation had not agreed to that. If it was said that Japan would not claim as "a matter of right," she might claim as "a matter of fact."

Dr. Sze wondered if Japan intended to claim as a matter of fact.

Baron Shidehara said that "claim" was not the right word. It would perhaps be better to say simply "Japan will not insist, etc."

Dr. Koo said that then Japan would be at liberty to claim.

Baron Shidehara said that from the beginning he had been saying Japan would not claim as a matter of right. On that point he had not changed at all. Should Japan make the claim as a matter of fact, China could say that Japan had no right to do so.

Dr. Koo said that if Baron Shidehara said that Japan had no intention to claim as a matter of right, the Chinese delegation would have to say that that assertion was not to be taken as meaning that Japan might claim as a matter of fact.

Dr. Sze said that the Japanese delegation had agreed to one thing and then would change the understanding.

Baron Shidehara suggested stating "Japan has no intention of claiming that China is under obligation to appoint Japanese nationals as members of the said subordinate staff."

Dr. Koo agreed with the insertion of the word "any" before "obligation."

Baron Shidehara said that there was then the question of interest on the treasury notes.

Dr. Koo said that the matter could be settled here.

Baron Shidehara said that the two delegations had no knowledge of the current rate of interest.

Dr. Koo said that in any case the question of interest could not be settled so hastily. He suggested meeting the next day to discuss the matter.

Baron Shidehara said that even if they were to meet to-morrow they could not settle the question of interest, because they had no knowledge of the current rate of interest.

Dr. Koo said that his delegation was not in a position to say if they would agree that the matter should be arranged elsewhere. They would make a definite answer on the point to-morrow. He would now propose to take up the matter of drafting the communication to be made to Mr. Hughes and Mr. Balfour.

Mr. Hanihara desired to point out that the communication was to be made simply to Mr. Hughes and Mr. Balfour, and that the two delegations were not under any obligation to report the matter to the conference. The matter was to be reported to Mr. Hughes and

Mr. Balfour because it had been through their good offices that the conversations had been initiated. Whatever they might do with the communication rested with them. It might be left to their discretion.

Dr. Koo said that if the two delegations made the communication they did so at their own discretion. Mr. Hanihara seemed to have the question of obligation in mind.

Mr. Hanihara said that the point might seem a trivial one, but it might have important bearing in Japan. The Shantung negotiations had been held distinctly apart from the conference. They were no part of the general conference.

Dr. Sze thought Mr. Hanihara's statement interesting, and appealed to the American observer for his opinion on the matter.

Mr. MacMurray said that the Japanese delegation was perfectly entitled to say that the conversations here had nothing to do with the conference.

Dr. Sze said that the Chinese understanding was otherwise.

Mr. MacMurray did not think Dr. Sze had any right to say so.

Dr. Koo said that he understood Mr. Hanihara to consent to the two delegations making the report to Mr. Hughes and Mr. Balfour, leaving them to do with the report whatever they liked.

Baron Shidehara wondered what Dr. Koo's idea was, whether he meant that the text of the treaty should be communicated to them.

Dr. Koo said that it was not his intention. His idea was that all the understandings the two delegations had reached should be communicated to them in order to show them what had been accomplished here.

Baron Shidehara wondered if they did not practically amount to the text of the proposed treaty.

Dr. Koo thought there were two steps to be taken in this connection. The first was that, Mr. Hughes and Mr. Balfour being anxious to know the results of the negotiations, the substance of the agreements reached was to be reported to them without waiting for the final draft. Then, as a next step, when the final agreement was reached, it would be communicated to them again.

Mr. Hanihara said that the Japanese delegation had no objection to the substance of the agreement being so communicated. But as to the text of the treaty, the Japanese delegation was not in a position to submit it to anyone before submitting it to their Government.

Dr. Koo said that the communication of the substance was another matter than the communication of the text.

Mr. Hanihara agreed on that point.

The meeting adjourned at 10 p. m.

WASHINGTON, D. C., *January 30, 1922.*

THIRTY-FIFTH MEETING. *

The thirty-fifth meeting, held in the governing board room, the Pan American Union Building, Washington, D. C., at 10 o'clock in the morning, Tuesday, January 31, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. C. Yen, Mr. T. Y. Tsai, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers:

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O.; Mr. F. Ashton-Gwatkin.

TRANSFER OF THE RAILWAY.

Baron Shidehara said that he had just prepared a draft of the article concerning the Tsingtao-Tsinanfu Railway which he thought covered all the points which had been discussed here. He read the draft, as follows:

“Japan shall transfer to China the Tsingtao-Tsinanfu Railway and its branches, together with all the properties appurtenant thereto, including wharves, warehouses, and other similar properties.

“China, on her part, undertakes to reimburse to Japan the actual value of the railway properties mentioned in the preceding paragraph. The actual value to be so reimbursed shall consist of the sum of 53,406,141 gold marks (which is the assessed value of such portion of the said properties as was left behind by the Germans), or its equivalent, plus the amount which Japan, during her administration of the railway, has actually expended for permanent improvements on or additions to the said properties, less a suitable allowance for depreciation. It is understood that no charge will be made with respect to the wharves, warehouses, and other similar properties mentioned in paragraph 1 of this article, except for such permanent improvements on or additions to them as may have been made by Japan, during her administration of the railway, less a suitable allowance for depreciation.

“The Government of Japan and the Government of China shall each appoint three commissioners to form a joint railway commission, with powers to appraise the actual value of the railway properties on the basis defined in the preceding paragraph, and to arrange the transfer of the said properties.

“Such transfer shall be completed as soon as possible, and, in any case, not later than nine months from the date of the coming into force of the present agreement.

“To effect the reimbursement under paragraph 2 of this article, China shall, simultaneously with the completion of the transfer of the railway properties, deliver to Japan Chinese Government treasury notes, secured on the properties and revenues of the railway, and running for a period of 15 years, but redeemable at the option of China at the end of five years from the date of delivery of the treasury notes, or at any time thereafter upon six months' previous notice.

"Pending the redemption of the said treasury notes, the Chinese Government will select and appoint, for so long a period as the said notes remain unredeemed, a Japanese subject to the post of traffic manager and another Japanese subject to be chief accountant jointly with the Chinese chief accountant with coordinate functions. These officials shall all be under the direction, control, and supervision of the Chinese managing director and removable for cause.

"It is understood that the redemption of the said treasury notes shall not be effected with funds raised from any foreign source.

"Terms of financial technicality relating to the said treasury notes not provided for in this article shall be separately determined in mutual accord between the two Governments."

Dr. Sze reminded Baron Shidehara of his omission of the clause previously agreed upon concerning the joint commission reading, "Should the joint commission fail to agree," etc.

Baron Shidehara thought it was going to be left in the minutes.

Dr. Sze said that Dr. Wang had just told him that it was to form the subject of a note exchange.

Dr. Koo, referring to Baron Shidehara's draft, said that it was in general acceptable to the Chinese delegation, embodying as it did what had substantially been agreed upon before. He would, however, suggest a few modifications.

With regard to the clause concerning the railway commission, he thought that the original understanding was for it to form part of a note exchange. He took it, however, that Baron Shidehara now desired to have it inserted in the treaty.

Baron Shidehara said that he did, because there were several other cases concerning which another commission was provided for, such, for instance, as that concerning the transfer of the administration of the Kiaochow leased territory. His idea was to form two commissions—one for the railway and another for all other matters requiring adjustment. He therefore thought it better to insert the clause in question in order to show that there were two distinct commissions.

Dr. Koo said that he was ready to accept Baron Shidehara's idea.

Then, regarding the phrase, "with powers," etc., he thought that it implied only the valuation of improvements and additions and the determination of what constituted such, and that it was not thereby meant that the properties formerly belonging to Germany should be valued by the commission.

Baron Shidehara said that the last-mentioned matter was defined in paragraph 2, and that therefore the commission would have nothing to do with that.

Dr. Koo, referring to the phrase, "these officials," etc., said that the preceding day they had spoken of three officials. He supposed that "these officials" here referred more particularly to the Japanese traffic manager and chief accountant.

Baron Shidehara answered in the affirmative. However, he had no objection to saying "three officials."

Dr. Koo said, regarding the clause concerning the source of funds for the redemption of the treasury notes, he had no objection, as the matter had substantially been agreed upon the day before. He wondered, however, if by "raising funds" Baron Shidehara meant "floating loan."

Baron Shidehara answered that his wording was broader in meaning. There were foreign banks at Shanghai, Tientsin, and elsewhere in China. If China were to get funds from them, no matter whether in the form of loans or by some other simpler arrangement, that would be raising funds from a foreign source.

Dr. Koo said that in any case the phrase "any foreign source" was to mean "any source other than Chinese." He would suggest, moreover, that the whole clause should be recorded in the minutes instead of being left in the body of the treaty, for, obviously, it implied restriction of freedom for China to raise funds from a foreign source and it did not appear necessary to have the clause inserted in the treaty.

Baron Shidehara said that so long as the matter was clearly understood he didn't care much about the form it should take.

Dr. Koo said that the phrase "terms of financial technicality," occurring in the last paragraph, seemed rather broad. What was meant here was only "details."

Baron Shidehara said that it was "financial details."

Dr. Koo said, "financial details of a technical character."

Baron Shidehara wondered if "financial details" did not sufficiently cover Dr. Koo's point.

Dr. Koo said that "details," so long as they referred to the treasury notes, would naturally be of a financial character. He would therefore suggest simply saying "technical details;" it was simply a form of expression which would be less objectionable, from the Chinese point of view, than the one adopted by Baron Shidehara.

Baron Shidehara said he would like to say, "financial details." The matter, of course, concerned the treasury notes, but it was not simply a form of expression, for he meant the question of interest to come under that heading. The question of what form the treasury notes should take was only a question of a technical nature, but when he said "terms of financial technicality," he meant the phrase to cover the question of interest, etc.

Dr. Koo said that in that case the wording "financial details of a technical character" might be adopted.

Baron Shidehara wondered if "technical character" was needed there.

Dr. Koo said that the idea was to avoid any misapprehension. The wording suggested by him could cover the question of interest. If Baron Shidehara had no serious objection, he would like to have the modifying phrase added.

Baron Shidehara agreed.

Dr. Koo said that in the last paragraph he would also suggest omitting the word "separately" and adding at the end a phrase which would imply a time limit, such as "as soon as possible, and, in any case, not later than six months from the date of the coming into force of this agreement." He thought six months would be long enough for the purpose, and at the same time it would give ample time to China to prepare the treasury notes for delivery.

Baron Shidehara wondered if it was important to have a time limit fixed in this respect, because in paragraph 4 it was provided that the transfer of the railway properties should be completed within nine months. It seemed to him, therefore, that the ultimate

period had already been fixed. By the time the transfer of the railway was completed, the financial details would, of course, have to be finished.

Dr. Sze said that the printing of the treasury notes took much time, and so he hoped that the Japanese delegation would agree that in case the printing was delayed Japan should accept provisional scrip.

Baron Shidehara said it was really a matter of detail, and while he had no knowledge about such a matter, he would not object to Dr. Sze's suggestion.

Dr. Sze said that such provisional scrip would be exchangeable at the time when the printing of the treasury notes was finished.

Baron Shidehara said that in that case there seemed no reason why a special time limit should be provided for in the last paragraph.

Dr. Koo said the idea was that it might not be altogether easy to come to an understanding on the financial details concerning the treasury notes. Were it to be understood that the transfer of the railway was to be carried out within nine months independently of these details, it might not be necessary to fix a time limit for the negotiation of financial details.

Baron Shidehara said it was, of course, understood that the treasury notes should be delivered at the time of the transfer of the railway, which was not to be later than nine months from the date of the coming into force of the agreement.

Dr. Koo said that it was possible that the financial details should not be agreed upon within that period; he might be overcautious, perhaps.

Baron Shidehara thought he was.

Dr. Koo was glad that Baron Shidehara thought so; because much rested with the Japanese side. At any rate, the Chinese delegation thought that the fixing of a time limit would make the whole process much easier, and that six months would appear to be ample time for that purpose, while leaving enough time for the liquidation of the railway.

Baron Shidehara said that in any case it was not a very important matter either for Japan or for China.

Dr. Koo said that it might be best to have a provision to forestall any difficulty that might arise in this connection.

Baron Shidehara said that the fixing of a particular period might be favorable or unfavorable to China, for the rate of interest fluctuated constantly.

Dr. Koo said the chances were equal.

Baron Shidehara asked if it was the Chinese idea to have three months before the delivery of the treasury notes.

Dr. Koo said he would not say exactly three months; the nine months stipulated for the transfer of the railway represented the maximum period. The present time limit simply provided sufficient margin between the transfer of the railway and the delivery of the treasury notes, so that if the transfer could be made before the end of nine months the transaction could be clear-cut and complete.

Baron Shidehara agreed. He expressed gratification that the crux of the whole Shantung question had thus been disposed of.

Dr. Koo shared the gratification.

Mr. Hanihara expressed appreciation of the part the British and American observers had taken in the settlement of the question.

The observers heartily joined in the general gratification.

Baron Shidehara said that the date of the transfer of the administration of the Kiaochow leased territory and of public properties therein remained to be fixed. He would propose a period of six months.

Dr. Koo said that that appeared to be rather too long; he thought it would be advisable for both Japan and China to curtail this period as much as possible.

Baron Shidehara said it was certainly the Japanese intention, but the question was one of practicability. The transfer of public properties would itself take a long time. There had, moreover, been so many administrative offices established with public properties attaching to each of them that it would be safer to provide sufficient time. He was really afraid that even a period of six months would not be long enough. There was, however, no intention on the Japanese side unnecessarily to prolong the transfer. From the estimate taken by Japan, six months was absolutely necessary; if the transfer should be found possible before that period, it would be so much the better.

Dr. Koo said that the whole Shantung question had exercised the minds of the Chinese people, and the Chinese delegation therefore desired to settle the matter as early as possible, so that any misapprehension now existing in China might be set at rest. It was very desirable that the period of transfer should be shorter, so that there might be no ground for misconception. It would be the more so because the Chinese delegation felt that Japan would be ready to do everything possible to expedite the transfer.

Baron Shidehara said that the proposed period had not been fixed in an arbitrary manner. The opinion of the authorities in Tsingtao had been consulted; they had said that it was not possible to fix a shorter period, while of course they would do their best to expedite the transfer. The Japanese delegation was only relying upon the opinion of the people on the spot. He and his colleagues didn't think six months would be at all too long.

Dr. Koo said there would, however, be an additional period between the signing of the treaty and its coming into force. Since Japan intended to turn over the leased territory the necessary preparations would be started immediately upon the treaty being signed without waiting for its coming into force.

Baron Shidehara said that the commissions of China and Japan could not meet before the coming into force of the present treaty. In preparing the transfer of the leased territory the two commissions had to act in cooperation.

Dr. Koo said that while it was so, the process of preparation could be begun before their meeting.

Baron Shidehara said that the Japanese authorities would make all preparations possible, but he and his colleagues did not want to make a provision which in practice could not be carried out. There was no reason for Japan to delay the transfer, but if special provision was to be made in the treaty, Japan must naturally have sufficient margin.

Dr. Koo said that there was no doubt about the Japanese intention. He was only thinking of the effect the matter would have upon the minds of the Chinese people at large. Should there be any misapprehension on their part, it would not be fair to Japan's intentions.

Baron Shidehara said that nobody would think six months too long. As he had stated, the Japanese delegation had consulted the opinion of the men in charge on the spot. They had said that any shorter period was not practicable. The transfer was not, of course, to be made all at once, but it would have to be effected in part. Part transfer would, of course, be made at an early date.

Dr. Koo understood that the Japanese delegation took six months to be the maximum period and that Japan had no intention of unnecessarily delaying the transfer. Not wishing to part from their policy of expediting the matter, the Chinese delegation was ready to accept the period, provided it should be recorded in the minutes that Japan would do everything to expedite the transfer and that necessary preparations would be made before the commissions met, so that the actual transfer might be made as soon as possible. Moreover, he would have the words "and adjustment" after the word "transfer" in the formula adopted before on this question.

Baron Shidehara said that he had no objection to having the understanding referred to by Dr. Koo recorded in the minutes. At the same time he hoped that China, on her part, would make all necessary preparations for receiving the transfer. China would, for instance, have to provide the necessary personnel for the purpose. If, when the Japanese authorities were ready to hand over a certain administrative office, China should say that she had no sufficient staff ready for the office, that would protract the transfer.

Dr. Koo agreed.

Baron Shidehara said that as to the adding of the words "and adjustment" he would think that the most important thing was the transfer of the administration and of public property.

Dr. Koo said he recalled saying that there might be other matters equally requiring adjustment. It had been agreed to make the draft read "the said transfer and adjustment, etc.," making "and adjustment" dependent upon the period of transfer to be fixed. Six months being a long period, he would now propose to let that phrase stay.

He recalled, also, that there were one or two points on which the Japanese delegation had agreed ad referendum. One of them was the transfer of telephones in Tsingtao, and the other was concerning the transfer of public properties, coming under the heading "B" in the Japanese proposal.

Mr. Hanihara said that time being up, he would suggest leaving the matter to the drafting meeting.

Dr. Koo wished to be informed of the decisions reached by the Japanese Government on those two points.

Mr. Hanihara said that the Japanese Government generally agreed, but that there was a question of wording about those matters.

Dr. Koo asked if the Japanese Government agreed to hand over those public properties without charge and if the same applied to telephones.

Baron Shidehara said that it was so. He would, however, point out that of course the question of improvements and additions came in. Charges would be made for these, minus allowance for depreciation.

Dr. Koo asked if Baron Shidehara referred to improvements effected by Japan on those properties.

Baron Shidehara said he referred to improvements upon and additions to them.

Dr. Koo said that the matter was now to be considered as agreed, only the question of wording remaining to be settled. As regarded the telephone, the Japanese delegation had agreed, at the eighth meeting, to turn them over to China ad referendum, as Mr. Hanihara had put it.

Mr. Hanihara said that it would be turned over to China subject to the same conditions as public properties; that was to say, improvements and additions should be paid for.

Baron Shidehara said that, according to the minutes, the following seemed to have been agreed upon:

"As regards the telephone enterprise which is to be handed over to the Chinese Government, the Chinese delegation give an assurance that the Chinese Government will give due consideration to requests from the foreign community at Tsingtao for such extensions and improvements as may be reasonably required by the general interests of the public.

"The Japanese delegation agree to turn over the telephone enterprise to the Chinese Government, subject to confirmation by the Japanese Government."

Dr. Koo said that it was correct; that was to say, the formula was to be recorded in the minutes. So, now, the phrase "subject to confirmation, etc.," might be omitted. He pointed out that there was also the question of the date in regard to the salt industry.

Baron Shidehara said that he would suggest a period of six months in this respect also.

Dr. Koo agreed. He said that that completed all dates remaining to be fixed. He would now suggest that the conferees should meet again in the afternoon to discuss the form of communication to be made to Messrs. Hughes and Balfour.

Mr. Hanihara said that the matter must be taken subject to the understanding that the final drafting had not been finished and that the communication represented only the substance of individual agreements.

Dr. Koo said that it was understood and that the final form was to be communicated again later on.

The meeting adjourned at 12 o'clock.

WASHINGTON, D. C., *January 31, 1922.*

SJC-35.]

JANUARY 31, 1922.

[For the press.]

[*Issued by the Chinese and Japanese delegations.*]

The thirty-fifth meeting of the Chinese and Japanese delegates relative to the Shantung question was held in the Pan American Union Building at 10 o'clock this morning. An agreement has been

reached on all essential points in regard to the question of the Tsingtao-Tsinanfu Railway and on certain other questions. The two delegations will meet again at 5 o'clock this afternoon for the purpose of drafting. The meeting adjourned at 12 o'clock.

THIRTY-SIXTH MEETING.

The thirty-sixth meeting, held in the governing board room, the Pan American Union Building, Washington, D. C., at 5 o'clock in the afternoon, Tuesday, January 31, 1922.

PRESENT.

China.—Dr. Sao-Ke Alfred Sze, Dr. V. K. Wellington Koo, Dr. Chung Hui Wang. Secretaries: Mr. Hawkling Yen, Mr. T. C. Yen, Mr. T. Y. Tsai, Mr. T. F. Hsu, Mr. C. H. Zee, Mr. Chuan Chao, Mr. T. H. Koo.

Japan.—Baron K. Shidehara, Mr. M. Hanihara, Mr. K. Debuchi. Secretaries: Mr. S. Saburi, Mr. E. Kimura, Mr. H. Saito, Mr. T. Shiratori.

Also present as observers.

The United States of America.—Mr. John Van A. MacMurray, Mr. Edward Bell.

The British Empire.—Mr. M. W. Lampson, M. V. O., Mr. F. Ashton-Gwatkin.

DRAFTING.

Dr. Sze said that Dr. Wang was in charge of the matter of final drafting. He would therefore ask Dr. Wang to state the Chinese view in regard to the communication to be made to Mr. Hughes and Mr. Balfour.

ARRANGEMENT OF THE AGREEMENT.

Dr. Wang said that there were two ways of arranging the agreements arrived at between the two delegations; namely, they could be arranged either chronologically or logically. He thought that the logical arrangement had better be adopted in the present case. So the agreements could be divided into three classes, viz:

- (1) Treaty agreements.
- (2) Annexes to the treaty.
- (3) Understandings to be recorded in the minutes.

As to the treaty agreements, he would suggest the following order:

- (1) The transfer of the former German-leased territory of Kiaochow.
- (2) Public properties.
- (3) Withdrawal of Japanese troops from Shantung.
- (4) The maritime customs of Tsingtao.
- (5) The Tsingtao-Tsinanfu Railway.
- (6) The extensions of the Tsingtao-Tsinanfu Railway.
- (7) The mining in Shantung.
- (8) The purchase of the salt industry by China.

(9) The former German submarine cables and the Japanese wireless stations.

(10) Vested rights of foreigners.

(11) Opening of Tsingtao as a self-opened port.

RENOUNCEMENT OF PREFERENTIAL RIGHTS.

Baron Shidehara wondered under which head the question of the renouncement by Japan of the preferential rights with regard to foreign assistance in persons, capital, and material would come.

Dr. Wang said that that would form a part of the annex.

Baron Shidehara said that the Japanese position was that, unless the matter was expressly stated in the treaty itself, there might be room for misunderstanding.

Dr. Wang said that if that matter were to be inserted in the treaty itself the wording would have to be modified. He would suggest that the renouncement by Japan should form the subject of a unilateral declaration in the annex to the treaty.

Baron Shidehara said that the question might be raised whether those treaty rights possessed by Japan could be renounced without being expressly stipulated in the body of the treaty. They were rights expressly secured in a treaty form.

Dr. Koo said the difficulty was that the matter involved legal questions which both sides had been conscientiously avoiding. If the proposed clause should be inserted in the body of the treaty it would at once raise a difficulty which had so far been successfully avoided.

Mr. Hanihara said that there was, however, a great difficulty on the Japanese side arising from the construction of laws. No renouncement of laws or treaties could be made without taking a legal form.

Dr. Koo said that it was only from the Japanese point of view.

Dr. Wang said that an annex of a treaty formed part of the treaty even when it was a unilateral declaration.

Baron Shidehara said that in that case there would be no difficulty on the Chinese side to have the clause inserted in the treaty itself.

Dr. Wang said that this thing would better be left in the minutes, for then there would have to be no reference to the German treaty.

Baron Shidehara said that, according to Dr. Wang, an annex formed part of the treaty. If so, the matter might just as well be incorporated in the treaty as in the annex. It could take the form of a unilateral declaration by Japan in some such way as "Japan declares that she renounces, etc."

Dr. Koo said that so worded it might be intelligible to the Japanese people, but the difficulty was with the public opinion of China.

Dr. Wang said that the matter could be put in the form of an annex in the same way as the Chinese declaration regarding the Tsingtao municipality.

Baron Shidehara said that he did not understand Dr. Wang's point of view. He (Dr. Wang) had said that an annex was part of a treaty; if so, what difference did it make.

Dr. Wang said that what was in the body of the treaty had to be agreed to by both parties, but the contents of an annex could be

unilateral. If in the body of the treaty China would have to express consent to what was stated.

Baron Shidehara said that the matter was not in any case a very important one.

Dr. Wang said that, that being the case, the matter might be put in the annex.

Baron Shidehara signified assent.

PUBLIC PROPERTIES.

Baron Shidehara then said that he was rather worried about the wording of the agreement concerning public property. The one that had been adopted was so complicated that it would be difficult for outsiders to understand. He had prepared a draft himself which followed the adopted wording as closely as possible, but which he hoped might make the meaning clearer. He read the draft, as follows:

"(1) The Government of Japan undertakes to transfer to the Government of China all public properties, including land, buildings, works, or establishments in the leased territory of Kiaochow, whether formerly possessed by the German authorities, or purchased or constructed by the Japanese authorities during the Japanese administration of the said territory, save those indicated in article-----of this treaty.

"In the transfer of such public properties no compensation will be claimed from the Government of China, except (1) for those purchased or constructed by the Japanese authorities and also (2) for the improvements on or additions to those formerly possessed by the German authorities. With regard to cases under these two categories, the Government of China shall refund a fair and equitable proportion of the expenses actually incurred by the Government of Japan for such properties or such improvements or additions, having regard to the principle of depreciation and continuing value."

Then the next article would read thus:

"(2) It is agreed that such public properties in the leased territory of Kiaochow as are required for the Japanese consulate to be established in Tsingtao shall be retained by the Government of Japan, and that those required more especially for the benefit of the Japanese community, including schools, shrines, and cemeteries, shall be left in the hands of the said community.

"Details of such matters shall be arranged by the joint commission provided for in Article ----- of this treaty."

Dr. Sze suggested taking up other matters while waiting for the typewritten draft and said that the transfer of the former leased territory of Kiaochow might be taken up.

Baron Shidehara said that the transfer of the administration might be made a separate article. The Chinese delegation had proposed to put several things under that heading.

Dr. Wang said that it might form the subject of a separate article. Then, referring to a typewritten copy of Baron Shidehara's draft on public properties, he (Dr. Wang) asked if that was going to be the final formula.

Baron Shidehara said the wording regarding the transfer of public properties had not yet been decided upon, not in a final form, at any rate.

Dr. Wang said that the Chinese delegation was prepared to accept the draft tentatively, subject to final drafting. He would, however, suggest adding the phrases "specified in (1)" and "specified in (2)," respectively, after the words "properties" and "additions" in the latter part of the second paragraph.

Baron Shidehara agreed. Then, referring to the agreement concerning public enterprises, he said that the subject matter belonged to such minor details that he would propose to put it in the annex. He would suggest the same in regard to the telephone. Only he wondered what would be the status of roads, sanitary equipment, etc. He understood that a formula had been adopted on that subject.

PUBLIC WORKS.

Dr. Wang suggested relegating it to the minutes. He would point out the fact that there was a slight difference of wording between the formula actually adopted and the one which Baron Shidehara had just read.

Baron Shidehara said that he had not been present at the time when the matter had been discussed. He, however, remembered that at a later meeting the Chinese delegation had stated that they had given assurance that the foreign community at Tsingtao should have fair representation in the management and maintenance of public works to be handed over to China, while expressing difficulty regarding other public works not so handed over.

Dr. Wang read from the Chinese minutes wherein the formula in question read:

"The Chinese delegation takes notice of the desire of the Japanese delegation that, etc." instead of:

"The Chinese delegation gives an assurance that, etc."

Baron Shidehara said that he had been referring to what had taken place at the meeting of January 13. Perhaps a middle course might be taken and the thing put in the annex.

Dr. Wang said that the formula had been adopted in the form he had read because of the Chinese desire that there should be no encroachment upon Chinese sovereignty. Mr. Hanihara had accepted it at the time on the understanding that it amounted to an assurance.

Baron Shidehara suggested making it a continuous declaration and putting it in the annex. It was awkward as it stood.

Dr. Wang said that the Chinese delegation was prepared to put it in the annex as a declaration of the Chinese delegation.

Baron Shidehara said that in that case the formula would read "The Chinese delegation declares that in the management, etc." He would point out that in the annex "The Chinese delegation" would look queer. It ought to be the "Chinese Government."

Dr. Wang agreed.

TSINGTAO CUSTOMS.

Baron Shidehara said that with regard to the agreement on the question of the Tsingtao maritime customs, he thought that the wording was rather clumsy. He would suggest taking off the two understandings therein to put them into the annex. The phraseol-

ogy adopted in the second and third paragraphs looked as if they implied that the office of the Inspector General of the Chinese maritime customs were not part of the Chinese Government.

Dr. Wang asked if Baron Shidehara desired to have paragraphs 2 and 3 transferred to the annex.

PROVISIONAL AGREEMENT OF 1915.

Dr. Koo said that he desired to point out an important point in the first paragraph, which read: "Simultaneously with the restitution of the leased territory of Kiaochow," etc. His understanding was that *immediately upon the coming into force of the present treaty* the provisional agreement of 1915 was to be abrogated automatically. The transfer of the leased territory was to be completed within six months, so that according to the draft now before him it would mean a difference of six months.

Baron Shidehara asked what Dr. Koo would suggest.

Dr. Koo said that he would suggest making the agreement read: "Immediately upon the coming into force of the present agreement, Japan transfers to China the custom-house of Tsingtao," etc.

Baron Shidehara said that the Tsingtao custom-house had always been a Chinese custom-house, and there could be no question of transfer.

Dr. Koo said that its administration was in the hands of the Japanese staff by reason of the said provisional agreement. He would, however, suggest saying:

"It is agreed that the custom-house of Tsingtao shall completely be made an integral part of the Chinese maritime customs," etc.

Baron Shidehara said that according to the Japanese minutes there seemed to be no such discrepancy as Dr. Koo had pointed out.

Dr. Koo said that Mr. Hanihara had agreed that immediately upon coming into force of the present agreement the provisional agreement of 1915 should be abrogated automatically.

Baron Shidehara said that he had not been present at the time, but from the contents of the provisional agreement of 1915 it seemed to him entirely logical that the withdrawal of the Japanese troops from Kiaochow and the abrogation of the provisional agreement should go together.

Dr. Koo said that the agreement between the two delegations had been that as soon as the whole agreement of Shantung took effect the provisional agreement should go.

Baron Shidehara assented.

Dr. Koo then suggested recording the second and third paragraphs in the minutes.

Baron Shidehara said that it should be put in the annex.

Dr. Koo said that if that was preferred, the Chinese delegation would agree.

Baron Shidehara said that the provisional agreement could not be abrogated by a declaration of the Japanese Government alone.

Dr. Koo suggested to make the paragraph read:

"It is understood that the provisional agreement of August 6, 1915, between Japan and China relative to the maritime customs office of Tsingtao will be abrogated upon the coming into force of the present treaty."

Baron Shidehara said that it ought to be "cease to be effective" instead of "abrogated."

Dr. Koo agreed.

OPENING OF CITIES IN SHANTUNG.

Baron Shidehara reminded the Chinese delegation that it had been agreed that a declaration should be made by the Chinese delegation concerning the opening of cities and towns in the Province of Shantung.

Dr. Koo said that the simplest way would be for the Chinese delegation to communicate to their Government to the end that the latter might make a declaration in this matter.

Baron Shidehara said that the Chinese Government had several times made such a declaration. What he wanted now was that it should be actually carried into effect. He desired that a declaration should be made in some form announcing the Chinese intention to carry out their former declaration.

Dr. Koo said that the Chinese delegates had suggested that they would ask their Government to open such towns.

Baron Shidehara read from the minutes at some length to show that the Chinese delegates had pledged themselves to make a declaration on the matter.

Dr. Koo said that in any case the matter was not to be introduced in the communication to be made to Mr. Hughes and Mr. Balfour. The Chinese delegates could perhaps make an official statement and publish it in the newspapers.

Baron Shidehara asked if it would not be possible for the Chinese delegation to send to the Japanese delegation a note embodying the statement to be published.

Dr. Koo said that the Chinese delegation would send a copy of such declaration to them.

CHEFOO-WEIHSIEN RAILWAY.

With regard to the Chefoo-Weihsien Railway he would suggest putting the understanding between the two delegations in the following form:

"It is understood that the construction of the Chefoo-Weihsien Railway shall be financed by Chinese capital."

Baron Shidehara, reading from the minutes, said that the Japanese delegation had stated that if the said railway was to be constructed with Chinese capital, Japan would raise no difficulty. He didn't remember any formal understanding of such nature as mentioned by Dr. Koo.

Dr. Koo said that the roadbed of the railway had been laid and the Chinese project had made considerable progress, and it would, therefore, be unwise for the Chinese delegation to appear as if they had neglected the matter. The simple sentence he had mentioned would very well answer the purpose.

Baron Shidehara felt there was some difference between the suggested formula and what he had stated when the question had come up.

Dr. Koo thought that that amounted to the same thing.

Baron Shidehara said that the Japanese delegation did not propose that the said railway should be constructed with Chinese capital. That was purely China's business.

Dr. Koo asked Baron Shidehara how the following formula would strike him:

"As it is understood that the Chefoo-Weihsien Railway is to be constructed with Chinese capital, the Japanese Government will raise no objection in this matter."

Baron Shidehara suggested the following formula:

"The Japanese Government has no intention of claiming that the option for the construction of the Chefoo-Weihsien Railway should be thrown open for the common activity of the international financial consortium, if that railway is to be constructed with Chinese capital."

That was the Japanese position. During the German régime a contract had been made between the German interests and the Chinese Government whereby it had been agreed that the railway was to be constructed with German capital. Japan had succeeded to that right, which, however, she had now no intention to claim. In the Japanese note of September 7, of last year, it had been proposed that the option for the construction of the railway should be offered for the common activity of the consortium.

Dr. Koo asked if Baron Shidehara intended to make that a unilateral declaration on Japan's part.

Baron Shidehara said that it was so and that it should be put in the annex.

UNDERSTANDINGS REGARDING TRANSFER OF RAILWAY.

Dr. Koo agreed. He then said that there were several understandings with regard to the railway: The first was regarding the Japanese employees now in the service of the Tsingtao-Tsinanfu Railway. The second was regarding contracts the Japanese railway authorities had concluded or would still conclude. In this latter respect, he would suggest the following formula:

CONTRACTS AND COMMITMENTS.

"It is understood that, pending the transfer to China by Japan of the Tsingtao-Tsinanfu Railway, no new agreements or contracts shall be made on that railway by the present administration.

"As to existing contracts or other commitments, which may conflict with the Chinese railway policy or interests, the present administration shall see to it that their effectiveness cease upon the transfer to China of this railway, it being understood that this does not prevent Japan from buying materials for making repairs absolutely necessary to the railway."

Baron Shidehara said that what Dr. Koo had just read did not coincide with what he (Baron Shidehara) had stated. He remembered stating that Japan would not enter into contracts which would be prejudicial to the interest of the railway. He wondered if it was the Chinese intention to communicate this to Mr. Hughes and Mr. Balfour. Seeing that there were so many items recorded in the minutes, it would be extremely difficult to take them all out now. If

the understandings recorded in the minutes should be communicated to these statesmen that had better be done later on. The two statesmen were especially concerned about the railway, so it might not be desirable to communicate to them on matters other than those concerning the railway. These other matters might best be left to later examination.

Dr. Koo said that the matter of contracts by the Japanese railway authorities concerned the railway.

Baron Shidehara said that the proposed understanding was, however, an entirely new matter as far as the Japanese delegation was concerned.

Dr. Koo said that the wording of the understanding might be a little different, having been recast in order to be communicated to Messrs. Hughes and Balfour.

SUBORDINATE STAFF.

There were some other important points which he would like to communicate to Mr. Hughes and Mr. Balfour. One of them was the understanding that the subordinate staff of the Japanese traffic manager should be appointed by the Chinese managing director. Another understanding was that Japan had no intention to claim that the members of the subordinate staff of the Japanese traffic manager should be appointed from among Japanese nationals. The same understanding applied to the entire staff of the Japanese chief accountant.

Baron Shidehara said that the last two understandings could be made into one.

Dr. Koo said that there was also an understanding regarding the telegraph administration along the Tsingtao-Tsinanfu Railway and another concerning the post offices in Shantung.

Baron Shidehara said that it was clearly impossible to communicate all the understandings recorded in the minutes. He thought the three understandings concerning the railway which Dr. Koo had mentioned would be enough.

Dr. Koo said that he would agree on the understanding that other points were to be communicated later on.

COMMUNICATION TO HUGHES AND BALFOUR.

Baron Shidehara said that it was understood that the communication was to be addressed to Mr. Hughes, not as the chairman of the conference.

Dr. Koo asked if, in other words, Baron Shidehara meant that the communication should be made separately by the two delegations.

Baron Shidehara said that if the Chinese delegation preferred, he would have no objection to making a joint communication. He had just prepared a short covering note which was to the following effect:

"On behalf of the Japanese delegation, I have the honor to inform you that the conversations which were commenced early in December between the Japanese and Chinese representatives, through the good offices of yourself and Mr. Balfour, on the question of Shantung have now come to a successful close.

"Highly appreciating, as I do, the keen interest which you have constantly manifested in a satisfactory adjustment of the question, I am particularly pleased to communicate to you herewith inclosed the substance of the terms agreed upon respecting various issues involved in the matter. A treaty on the basis of such terms is in the course of drafting.

"In making this communication to you, I beg to express the sincere thanks of my Japanese colleagues and myself for all your friendly efforts in bringing together the Japanese and Chinese delegations with such a happy result."

He wondered if the Chinese delegation would agree to address to Mr. Hughes and Mr. Balfour a separate letter of identical wording.

Dr. Koo thought the covering note would of necessity be a brief one along the lines Baron Shidehara suggested. The Chinese delegation had also prepared a note, which was as follows:

"We have the honor to apprise you that the conversations between the Chinese and Japanese delegations on the Shantung question which were arranged through the friendly offices of your good self and Mr. Balfour have resulted in complete accord, and to inclose for your information a copy of all the agreements and understandings thus reached.

"In informing you of the successful conclusion of our conversations, we beg to express our gratification that the Conference on the Limitation of Armament, so happily convoked by the Government of the United States, has afforded an opportunity for the settlement of this important international question, and to thank you for your good offices which have made this opportunity fruitful of most felicitous results."

He suggested making the communication as soon as possible so that it might reach its destination to-morrow morning.

Baron Shidehara agreed.

It was agreed that the Japanese and Chinese delegations should each communicate to Mr. Hughes and Mr. Balfour, under the respective covering notes above given, the agreements, annexes, and understandings appearing in the annex.

WASHINGTON, D. C., *January 31, 1922.*

ANNEX.

AGREEMENTS.

1. THE FORMER GERMAN LEASED TERRITORY OF KIAOCHOW.

1. Japan shall restore to China the former German leased territory of Kiaochow.

2. The Governments of Japan and China shall each appoint a commission with powers to make and carry out detailed arrangements relating to the transfer of the administration and of public property in the said territory, and to settle other matters equally requiring adjustment. For such purposes the Japanese and Chinese commissions shall meet immediately upon the coming into force of the present agreement.

3. The said transfer and adjustment shall be completed as soon as possible, and, in any case, not later than six months from the date of the coming into force of this agreement.

4. The Japanese Government agrees to hand over to the Chinese Government, upon the transfer to China of the administration of the former German leased territory of Kiaochow, such archives, registers, plans, title deeds, and other documents in the possession of Japan, or certified copies thereof, as may be necessary for the said transfer, as well as those that may be useful for the administration by China, after such transfer, of that territory and of the 50-kilometer zone around Kiaochow Bay.

2. PUBLIC PROPERTIES.

The Government of Japan undertakes to transfer to the Government of China all public properties, including land, buildings, works, or establishments in the leased territory of Kiaochow, whether formerly possessed by the German authorities or purchased or constructed by the Japanese authorities during the Japanese administration of the said territory, save those indicated in Article ----- (par. 3) of this treaty.

In the transfer of such public properties no compensation will be claimed from the Government of China, except (1) for those purchased or constructed by the Japanese authorities, and also (2) for the improvements on or additions to those formerly possessed by the German authorities. With regard to cases under these two categories, the Government of China shall refund a fair and equitable proportion of the expenses actually incurred by the Government of Japan for such properties (specified in (1)) or such improvements or additions (specified in (2)), having regard to the principle of depreciation and continuing value.

It is agreed that such public properties in the leased territory of Kiaochow as are required for the Japanese consulate to be established

in Tsingtao shall be retained by the Government of Japan, and that those required more especially for the benefit of the Japanese community, including public schools, shrines, and cemeteries, shall be left in the hands of the said community.

Details of such matters shall be arranged by the joint commission provided for in Article ----- of this treaty.

3. JAPANESE TROOPS.

The Japanese troops, including gendarmes, now stationed along the Tsingtao-Tsinanfu Railway and its branches shall be withdrawn as soon as the Chinese police or military force shall have been sent to take over the protection of the railway.

The disposition of the Chinese police or military force and the withdrawal of the Japanese troops under the foregoing provisions may be effected in sections. The date of the completion of such process for each section shall be arranged in advance between the competent authorities of Japan and China. The entire withdrawal of such Japanese troops shall be effected if possible within three months, and, in any case, not later than six months from the date of the signature of the present agreement.

The Japanese garrison at Tsingtao shall be completely withdrawn simultaneously, if possible, with the transfer of the administration of the leased territory of Kiaochow to China, and in any case not later than 30 days from the date of such transfer.

4. THE MARITIME CUSTOMS.

(1) It is agreed that upon the coming into force of the present treaty the custom-house of Tsingtao shall be made an integral part of the Chinese maritime customs.

(2) It is understood that the provisional agreement of August 6, 1915, between Japan and China relative to the maritime customs office of Tsingtao will cease to be effective upon the coming into force of the present treaty.

5. THE TSINGTAO-TSINANFU RAILWAY.

Japan shall transfer to China the Tsingtao-Tsinanfu Railway and its branches, together with all the properties appurtenant thereto, including wharves, warehouses, and other similar properties.

China on her part undertakes to reimburse to Japan the actual value of the railway properties mentioned in the preceding paragraph. The actual value to be so reimbursed shall consist of the sum of 53,406,141 gold marks (which is the assessed value of such portion of the said properties as was left behind by the Germans), or its equivalent, plus the amount which Japan, during her administration of the railway, has actually expended for permanent improvements on or additions to the said properties, less a suitable allowance for depreciation. It is understood that no charge will be made with respect to the wharves, warehouses, and other similar properties mentioned in paragraph 1 of this article, except for such permanent improvements on or additions to them as may have been made by

Japan during her administration of the railway, less a suitable allowance for depreciation.

The Government of Japan and the Government of China shall each appoint three commissioners to form a joint railway commission, with powers to appraise the actual value of the railway properties on the basis defined in the preceding paragraph, and to arrange the transfer of the said properties.

Such transfer shall be completed as soon as possible, and, in any case, not later than nine months from the date of the coming into force of the present agreement.

To effect the reimbursement under paragraph 2 of this article, China shall, simultaneously with the completion of the transfer of the railway properties, deliver to Japan Chinese Government treasury notes, secured on the properties and revenues of the railway, and running for a period of 15 years, but redeemable at the option of China at the end of 5 years from the date of the delivery of the treasury notes, or at any time thereafter upon 6 months' previous notice.

Pending the redemption of the said treasury notes, the Chinese Government will select and appoint, for so long a period as the said notes remain unredeemed, a Japanese subject to the post of traffic manager and another Japanese subject to be chief accountant jointly with the Chinese chief accountant with coordinate functions. These officials shall all be under the direction, control, and supervision of the Chinese managing director, and removable for cause.

Financial details of a technical character relating to the said treasury notes, not provided for in this article, shall be determined in mutual accord between the Japanese and Chinese authorities as soon as possible and, in any case, not later than six months from the date of the coming into force of the present agreement.

6. THE EXTENSIONS OF THE TSINGTAO-TSINANFU RAILWAY.

It is agreed that the concessions relating to the two extensions of the Tsingtao-Tsinanfu Railway, namely, the Tsinanfu-Shunteh and the Kaomi-Hsuchowfu lines, will be thrown open for the common activity of an international financial group on terms to be arranged between the Chinese Government and the said group.

7. MINES.

The mines of Tsechuan, Fangtse, and Chinlingchen, for which the mining rights were formerly granted by China to Germany, shall be handed over to a company to be formed by a special charter of the Chinese Government, in which the Japanese capital may not exceed the amount of the Chinese capital.

The mode and terms of such arrangement shall be determined by the Chinese and Japanese commissions which are to be appointed for that purpose and which shall meet immediately upon the coming into force of the present agreement.

8. OPENING OF THE FORMER GERMAN LEASED TERRITORY.

The Japanese Government declares that it has no intention of seeking the establishment of an exclusive Japanese settlement or of an international settlement in Tsingtao.

The Chinese Government, on its part, declares that the entire area of the former German-leased territory of Kiaochow will be opened to foreign trade and that foreigners will be permitted freely to reside and to carry on commerce, industry, and other lawful pursuits within such area.

The vested rights lawfully and equitably acquired by foreign nationals in said area, whether under the German régime or during the Japanese military occupation, will be respected.

All questions relating to the status or validity of such vested rights acquired by Japanese nationals shall be arranged by the Sino-Japanese joint commission.

9. SALT INDUSTRY.

Whereas the salt industry is a Government monopoly in China, it is agreed that the interests of Japanese companies or Japanese nationals actually engaged in the said industry along the coast of Kiaochow Bay are to be purchased by the Chinese Government on payment of fair compensation and that exportation to Japan of a quantity of salt produced by the said industry along the said coast is to be permitted on reasonable terms. Arrangements for the above purposes, including the transfer of said interests to the Chinese Government, shall be completed by the Chinese and Japanese commissions as soon as possible and in any case not later than six months from the date of the coming into force of the present agreement.

10. SUBMARINE CABLES.

Japan declares that all the rights, title, and privileges concerning former German submarine cables between Tsingtao and Chefoo and between Tsingtao and Shanghai are vested in China, with the exception of those portions of the said two cables which have been utilized by the Japanese Government for the laying of a cable between Tsingtao and Sasebo; it being understood that the question relating to the landing and operation at Tsingtao of the said Tsingtao-Sasebo cable shall be arranged by the Chinese and Japanese commissions, subject to the terms of the existing contracts to which China is party.

11. WIRELESS STATIONS.

The Japanese wireless stations at Tsingtao and Tsinanfu shall be transferred to China upon the withdrawal of the Japanese troops at those two places, respectively, with fair compensation for the value of these stations.

The details of such transfer and compensation shall be arranged by the Chinese and Japanese commissions.

ANNEXES.

I. PREFERENTIAL RIGHTS.

Japan declares that she renounces all preferential rights with regard to foreign assistance in persons, capital, and material stipulated in the Sino-German treaty of March 6, 1898.

II. PUBLIC ENTERPRISES.

Enterprises relating to electric light, telephone, stockyard, etc., shall be handed over to the Chinese Government, with the understanding that the stockyard, electric light, and laundry enterprises are, in turn, to be handed over to the municipal government of Tsingtao, which will form Chinese corporations in conformity with the Chinese company law to manage them under municipal supervision and regulations.

III. TELEPHONES.

The Japanese Government agrees to turn over to the Chinese Government the telephone enterprise in the former German leased territory of Kiaochow.

As regards such telephone enterprise, the Chinese Government will give due consideration to requests from the foreign community at Tsingtao for such extensions and improvements as may be reasonably required by the general interests of the public.

IV. PUBLIC WORKS.

The Chinese Government declares that in the management and maintenance of the public works in Tsingtao, such as roads, water-works, parks, drainage, sanitary equipment, etc., handed over to the Chinese Government by the Japanese Government, the foreign community in Tsingtao shall have fair representation.

V. MARITIME CUSTOMS.

The Chinese Government declares that it will move the Inspector General of the Chinese maritime customs to permit the Japanese traders at Tsingtao to communicate with the said customs in the Japanese language; and, in the selection of a suitable staff for the Tsingtao customs, to give consideration within the limits of its established service regulations to the diverse needs of the trade of Tsingtao.

VI. THE TSINGTAO-TSINANFU RAILWAY.

Should the joint railway commission fail to reach an agreement on any of the matters intrusted to its charge, the points at issue shall be taken up by the two Governments for discussion and adjustment by means of diplomacy.

In the determination of such points the two Governments shall, if necessary, obtain recommendations of an expert or experts of a third power or powers, who shall be designated in mutual agreement with each other.

VII. EXTENSION OF THE TSINGTAO-TSINANFU RAILWAY.

The Japanese Government has no intention of claiming that the option for the construction of the Chefoo-Weihsien Railway should be thrown open for the common activity of the international financial consortium if that railway is to be constructed with Chinese capital.

VIII. OPENING OF THE FORMER LEASED TERRITORY.

The Chinese Government declares that, pending the enactment and general application of laws regulating the system of local self-government in China, the Chinese local authorities will ascertain the views of the foreign residents in the former German leased territory of Kiaochow in such municipal matters as may directly affect their welfare and interests.

UNDERSTANDINGS RECORDED IN THE MINUTES.

THE TSINGTAO-TSINANFU RAILWAY.

(1) It is understood that, on taking over the railway, the Chinese authorities shall have full power and discretion to continue or remove the present employees of Japanese nationality in the service of the railway, and that reasonable notice may be given before the date of transfer of the railway. Detailed arrangements regarding the replacements to take effect immediately on the transfer of the railway to China are to be made by the Chinese and Japanese authorities.

(2) It is understood (1) that the entire subordinate staff of the Japanese traffic manager and of the Japanese chief accountant are to be appointed by the Chinese managing director; and (2) that after two years and a half from the date of the transfer of the railway, the Chinese Government may appoint an assistant traffic manager of Chinese nationality for the period of two years and a half, and that such assistant Chinese traffic manager may also be appointed at any time after six months' notice for the redemption of the treasury notes is given.

(3) The Japanese delegation declares that Japan has no intention of claiming that China is under any obligation to appoint Japanese nationals as members of the said subordinate staff.

(4) It is understood that the redemption of the said treasury notes will not be effected with funds raised from any source other than Chinese.

MEETINGS OF THE DRAFTING COMMITTEE.

The drafting committee met at the Pan American Union Building as follows:

First meeting, February 2, 1922, at 10.30 a. m.

There were present:

China.—Dr. Chung-Hui Wang. Accompanied by Mr. T. F. Hsu, Mr. C. Chao.

Japan.—Baron Shidehara. Accompanied by Mr. Kimura, Mr. Shiratori, Mr. Saito.

As observer:

United States of America.—Mr. Edward Bell.

Second meeting, February 2, 1922, at 6 p. m.

There were present:

China.—Dr. Chung-Hui Wang. Accompanied by Mr. C. Chao.

Japan.—Baron Shidehara. Accompanied by Mr. Saito, Mr. Sawada.

Third meeting, February 4, 1922, at 10.30 a. m.

There were present:

China.—Dr. Chung-Hui Wang. Accompanied by Mr. T. F. Hsu, Mr. C. Chao.

Japan.—Baron Shidehara. Accompanied by Mr. Kimura, Mr. Saito.

Fourth meeting, February 7, 1922, at 4 p. m.

There were present:

China.—Dr. Chung-Hui Wang. Accompanied by Mr. T. F. Hsu, Mr. C. Zee, Mr. Chuan Chao.

Japan.—Baron Shidehara. Accompanied by Mr. Kimura, Mr. Saito.

Fifth meeting, February 8, 1922, at 4 p. m.

There were present:

China.—Dr. Chung-Hui Wang. Accompanied by Mr. T. F. Hsu, Mr. Chuan Chao.

Japan.—Baron Shidehara. Accompanied by Mr. Kimura, Mr. Saito.

The text of the treaty, including the annex, was discussed at the first, second, and third meetings, and definitely agreed to at the third meeting.

The text of the "Agreed terms of understandings recorded in the minutes" was discussed at the fourth and fifth meetings and definitely agreed to at the fifth meeting.

TREATY FOR THE SETTLEMENT OF OUTSTANDING QUESTIONS RELATIVE TO SHANTUNG

Japan and China, being equally animated by a sincere desire to settle amicably and in accordance with their common interest outstanding questions relative to Shantung, have resolved to conclude a treaty for the settlement of such questions, and have to that end named as their Plenipotentiaries, that is to say:

His Majesty the Emperor of Japan:

Baron Tomosaburo Kato,
Minister of the Navy;

Baron Kijuro Shidehara,
Ambassador Extraordinary
and Plenipotentiary; and
Masanao Hanihara, Vice-
Minister for Foreign Af-
fairs;

His Excellency the President
of the Chinese Republic:

Sao-Ke Alfred Sze, Envoy
Extraordinary and Minis-
ter Plenipotentiary;

Vikyuin Wellington Koo,
Envoy Extraordinary and
Minister Plenipotentiary;
and

Chung-Hui Wang, Former
Minister of Justice;

Who, having communicated to each other their respective full powers, found to be in good and due form, have agreed upon the following Articles:

SECTION I.

RESTORATION OF THE FORMER GERMAN LEASED TERRITORY OF KIAOCHOW.

ARTICLE I.

Japan shall restore to China the former German Leased Territory of Kiaochow.

ARTICLE II.

The Government of Japan and the Government of the Chinese Republic shall each appoint three Commissioners to form a Joint Commission, with powers to make and carry out detailed arrangements relating to the transfer of the administration of the former German Leased Territory of Kiaochow and to the transfer of public properties in the said Territory and to settle other matters likewise requiring adjustment.

For such purposes, the Joint Commission shall meet immediately upon the coming into force of the present Treaty.

ARTICLE III.

The transfer of the administration of the former German Leased Territory of Kiaochow and the transfer of public properties in the said Territory, as well as the adjustment of other matters under the preceding Article, shall be completed as soon as possible, and, in any case, not later than six months from the date of the coming into force of the present Treaty.

ARTICLE IV.

The Government of Japan undertakes to hand over to the Government of the Chinese Republic, upon the transfer to China of the administration of the former German Leased Territory of Kiaochow, such archives, registers, plans, title-deeds and other documents in the possession of Japan, or certified copies thereof, as may be necessary for the transfer of the administra-

tion, as well as those that may be useful for the subsequent administration by China of the said Territory and of the Fifty Kilo-metre Zone around Kiaochow Bay.

SECTION II.

TRANSFER OF PUBLIC PROPERTIES.

ARTICLE V.

The Government of Japan undertakes to transfer to the Government of the Chinese Republic all public properties including land, buildings, works or establishments in the former German Leased Territory of Kiaochow, whether formerly possessed by the German authorities, or purchased or constructed by the Japanese authorities during the period of the Japanese administration of the said Territory, except those indicated in Article VII of the present Treaty.

ARTICLE VI.

In the transfer of public properties under the preceding Article, no compensation will be claimed from the Government of the Chinese Republic: Provided, however, that for those purchased or constructed by the Japanese authorities, and also for the improvements on or additions to those formerly possessed by the German authorities, the Government of the Chinese Republic shall refund a fair and equitable proportion of the expenses actually incurred by the Government of Japan, having regard to the principle of depreciation and continuing value.

ARTICLE VII.

Such public properties in the former German Leased Territory of Kiaochow as are required for the Japanese Consulate to be established in Tsingtao shall be retained by the Government of Japan, and those required more especially for the benefit of the Japanese community, including public schools, shrines and cemeteries, shall be left in the hands of the said community.

ARTICLE VIII.

Details of the matters referred to in the preceding three Articles shall be arranged by the Joint Commission provided for in Article II of the present Treaty.

SECTION III.

WITHDRAWAL OF JAPANESE TROOPS.

ARTICLE IX.

The Japanese troops, including gendarmes, now stationed along the Tsingtao-Tsinanfu Railway and its branches, shall be withdrawn as soon as the Chinese police or military force shall have been sent to take over the protection of the Railway.

ARTICLE X.

The disposition of the Chinese police or military force and the withdrawal of the Japanese troops under the preceding Article may be effected in sections.

The date of the completion of such process for each section shall be arranged in advance between the competent authorities of Japan and China.

The entire withdrawal of such Japanese troops shall be effected within three months, if possible, and, in any case, not later than six months, from the date of the signature of the present Treaty.

ARTICLE XI.

The Japanese garrison at Tsingtao shall be completely withdrawn simultaneously, if possible, with the transfer to China of the administration of the former German Leased Territory of Kiaochow, and, in any case, not later than thirty days from the date of such transfer.

SECTION IV.

MARITIME CUSTOMS AT TSINGTAO.

ARTICLE XII.

The Custom House of Tsingtao shall be made an integral part of the Chinese Maritime Customs upon the coming into force of the present Treaty.

ARTICLE XIII.

The Provisional Agreement of August 6, 1915, between Japan and China, relating to the re-opening of the Office of the Chinese Maritime Customs at Tsingtao shall cease to be effective upon the coming into force of the present Treaty.

SECTION V.

TSINGTAO-TSINANFU RAILWAY.

ARTICLE XIV.

Japan shall transfer to China the Tsingtao-Tsinanfu Railway and its branches, together with all other properties appurtenant thereto, including wharves, ware-

houses and other similar properties.

ARTICLE XV.

China undertakes to reimburse to Japan the actual value of all the Railway properties mentioned in the preceding Article.

The actual value to be so reimbursed shall consist of the sum of fifty-three million four hundred and six thousand, one hundred and forty-one (53,406,141) gold Marks (which is the assessed value of such portion of the said properties as was left behind by the Germans), or its equivalent, plus the amount which Japan, during her administration of the Railway, has actually expended for permanent improvements on or additions to the said properties, less a suitable allowance for depreciation.

It is understood that no charge will be made with respect to the wharves, warehouses and other similar properties mentioned in the preceding Article, except for such permanent improvements on or additions to them as may have been made by Japan, during her administration of the Railway, less a suitable allowance for depreciation.

ARTICLE XVI.

The Government of Japan and the Government of the Chinese Republic shall each appoint three Commissioners to form a Joint Railway Commission, with powers to appraise the actual value of the Railway properties on the basis defined in the preceding Article, and to arrange the transfer of the said properties.

ARTICLE XVII.

The transfer of all the Railway properties under Article XIV of

the present Treaty shall be completed as soon as possible, and, in any case, not later than nine months from the date of the coming into force of the present Treaty.

ARTICLE XVIII.

To effect the reimbursement under Article XV of the present Treaty, China shall deliver to Japan simultaneously with the completion of the transfer of the Railway properties, Chinese Government Treasury Notes, secured on the properties and revenues of the Railway, and running for a period of fifteen years, but redeemable, whether in whole or in part, at the option of China, at the end of five years from the date of the delivery of the said Treasury Notes, or at any time thereafter upon six months' previous notice.

ARTICLE XIX.

Pending the redemption of the said Treasury Notes under the preceding Article, the Government of the Chinese Republic will select and appoint, for so long a period as any part of the said Treasury Notes shall remain unredeemed, a Japanese subject to be Traffic Manager, and another Japanese subject to be Chief Accountant jointly with the Chinese Chief Accountant and with co-ordinate functions.

These officials shall all be under the direction, control and supervision of the Chinese Managing Director, and removable for cause.

ARTICLE XX.

Financial details of a technical character relating to the said

Treasury Notes, not provided for in this Section, shall be determined in common accord between the Japanese and Chinese authorities as soon as possible, and, in any case, not later than six months from the date of the coming into force of the present Treaty.

SECTION VI.

EXTENSIONS OF THE TSINGTAO-TSINANFU RAILWAY.

ARTICLE XXI.

The concessions relating to the two extensions of the Tsingtao-Tsinanfu Railway, namely, the Tsinanfu-Shunteh and the Kao-mi-Hsuchowfu lines, shall be made open to the common activity of an international financial group, on terms to be arranged between the Government of the Chinese Republic and the said group.

SECTION VII.

MINES.

ARTICLE XXII.

The mines of Tsechwan, Fangtze and Chinlingchen, for which the mining rights were formerly granted by China to Germany, shall be handed over to a company to be formed under a special charter of the Government of the Chinese Republic, in which the amount of Japanese capital shall not exceed that of Chinese capital.

The mode and terms of such arrangement shall be determined by the Joint Commission provided for in Article II of the present Treaty.

SECTION VIII.

OPENING OF THE FORMER GERMAN LEASED TERRITORY OF KIAOCHOW.

ARTICLE XXIII.

The Government of Japan declares that it will not seek the establishment of an exclusive Japanese settlement, or of an international settlement, in the former German Leased Territory of Kiaochow.

The Government of the Chinese Republic, on its part, declares that the entire area of the former German Leased Territory of Kiaochow will be opened to foreign trade, and that foreign nationals will be permitted freely to reside and to carry on commerce, industry and other lawful pursuits within such area.

ARTICLE XXIV.

The Government of the Chinese Republic further declares that vested rights lawfully and equitably acquired by foreign nationals in the former German Leased Territory of Kiaochow, whether under the German régime or during the period of the Japanese administration, will be respected.

All questions relating to the status or validity of such vested rights acquired by Japanese subjects or Japanese companies shall be adjusted by the Joint Commission provided for in Article II of the present Treaty.

SECTION IX.

SALT INDUSTRY.

ARTICLE XXV.

Whereas the salt industry is a Government monopoly in China,

it is agreed that the interests of Japanese subjects or Japanese companies actually engaged in the said industry along the coast of Kiaochow Bay shall be purchased by the Government of the Chinese Republic for fair compensation, and that the exportation to Japan of a quantity of salt produced by such industry along the said coast is to be permitted on reasonable terms.

Arrangements for the above purposes, including the transfer of the said interests to the Government of the Chinese Republic, shall be made by the Joint Commission provided for in Article II of the present Treaty. They shall be completed as soon as possible, and, in any case, not later than six months from the date of the coming into force of the present Treaty.

SECTION X.

SUBMARINE CABLES.

ARTICLE XXVI.

The Government of Japan declares that all the rights, title, and privileges concerning the former German submarine cables between Tsingtao and Chefoo and between Tsingtao and Shanghai are vested in China, with the exception of those portions of the said two cables which have been utilized by the Government of Japan for the laying of a cable between Tsingtao and Sasebo; it being understood that the question relating to the landing and operation at Tsingtao of the said Tsingtao-Sasebo cable shall be adjusted by the Joint Commission provided for in Article II of the present Treaty, subject to the terms of the existing contracts to which China is a party.

SECTION XI.

WIRELESS STATIONS.

ARTICLE XXVII.

The Government of Japan undertakes to transfer to the Government of the Chinese Republic the Japanese wireless stations at Tsingtao and Tsinanfu, for fair compensation for the value of these stations, upon the withdrawal of the Japanese troops at the said two places, respectively.

Details of such transfer and compensation shall be arranged by the Joint Commission provided for in Article II of the present Treaty.

[L. S.] T. KATO.

[L. S.] K. SHIDEHARA.

[L. S.] M. HANIHARA.

ARTICLE XXVIII.

The present Treaty (including the Annex thereto) shall be ratified, and the ratifications thereof shall be exchanged at Peking as soon as possible, and not later than four months from the date of its signature.

It shall come into force from the date of the exchange of ratifications.

In witness whereof, the respective Plenipotentiaries have signed the present Treaty in duplicate, in the English language, and have affixed thereto their seals.

Done at the City of Washington this fourth day of February, One Thousand Nine Hundred and Twenty-Two.

SAO-KE ALFRED SZE.

V. K. WELLINGTON KOO.

CHUNG-HUI WANG.

[L. S.]

[L. S.]

[L. S.]

ANNEX.

I.

RENUNCIATION OF PREFERENTIAL RIGHTS.

The Government of Japan declares that it renounces all preferential rights with respect to foreign assistance in persons, capital and material stipulated in the Treaty of March 6, 1898, between China and Germany.

II.

TRANSFER OF PUBLIC PROPERTIES.

It is understood that public properties to be transferred to the Government of the Chinese Republic under Article V of the present Treaty include (1) all public works, such as roads, water-works, parks, drainage and sanitary equipment, and (2) all public enterprises such as those relating to telephone, electric light, stockyard and laundry.

The Government of the Chinese Republic declares that in the management and maintenance of public works to be so transferred to the Government of the Chinese Republic, the foreign community in the former German Leased Territory of Kiaochow shall have fair representation.

The Government of the Chinese Republic further declares that, upon taking over the telephone enterprise in the former German Leased Territory of Kiaochow, it will give due consideration to the requests from the foreign community in the said Territory for such extensions and improve-

ments in the telephone enterprise as may be reasonably required by the general interests of the public.

With respect to public enterprises relating to electric light, stockyard and laundry, the Government of the Chinese Republic, upon taking them over, shall re-transfer them to the Chinese municipal authorities of Tsingtao, which shall, in turn, cause commercial companies to be formed under Chinese laws for the management and working of the said enterprises, subject to municipal regulation and supervision.

III.

MARITIME CUSTOMS AT TSINGTAO.

The Government of the Chinese Republic declares that it will instruct the Inspector General of the Chinese Maritime Customs (1) to permit Japanese traders in the former German Leased Territory of Kiaochow to communicate with the Custom House of Tsingtao; and (2) to give consideration, within the limits of the established service regulations of the Chinese Maritime Customs, to the diverse needs of the trade of Tsingtao, in the selection of a suitable staff for the said Custom House.

IV.

TSINGTAO-TSINANFU RAILWAY.

Should the Joint Railway Commission provided for in Article XVI of the present Treaty fail

to reach an agreement on any matter within its competence, the point or points at issue shall be taken up by the Government of Japan and the Government of the Chinese Republic for discussion and adjustment by means of diplomacy.

In the determination of such point or points, the Government of Japan and the Government of the Chinese Republic shall, if necessary, obtain recommendations of experts of a third Power or Powers who shall be designated in common accord between the two Governments.

V.

CHEFOO-WEIHSIEN RAILWAY.

The Government of Japan will not claim that the option for financing the Chefoo-Weihsien

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M. HANIHARA.

Railway should be made open to the common activity of the International Financial Consortium, provided that the said Railway is to be constructed with Chinese capital.

VI.

OPENING OF THE FORMER GERMAN LEASED TERRITORY OF KIAOCHOW.

The Government of the Chinese Republic declares that, pending the enactment and general application of laws regulating the system of local self-government in China, the Chinese local authorities will ascertain the views of the foreign residents in the former German Leased Territory of Kiaochow in such municipal matters as may directly affect their welfare and interests.

SAO-KE ALFRED SZE.
V. K. WELLINGTON KOO.
CHUNG-HUI WANG.

**AGREED TERMS OF UNDERSTANDING RECORDED IN THE MINUTES
OF THE JAPANESE AND CHINESE DELEGATIONS CONCERNING
THE CONCLUSION OF THE TREATY FOR THE SETTLEMENT OF
OUTSTANDING QUESTIONS RELATIVE TO SHANTUNG.**

I. TRANSFER OF PUBLIC PROPERTIES.

1. Japanese subjects will be permitted, subject to the provisions of Chinese law, to become members or shareholders of any of the commercial companies to be formed with respect to public enterprises mentioned in Paragraph 4 of Annex II of the Treaty.

II. WITHDRAWAL OF JAPANESE TROOPS.

2. After the withdrawal of the Japanese troops provided for in Articles IX-XI of the Treaty, no Japanese military force of any kind will remain in any part of Shantung.

III. TSINGTAO-TSINANFU RAILWAY.

3. All light railways constructed by Japan in Shantung and all properties appurtenant thereto shall be considered as part of the properties of the Tsingtao-Tsinanfu Railway.

4. The telegraph lines along the Railway shall also be considered as part of the Railway properties.

5. The Chinese authorities, upon taking over the Railway, shall have full power and discretion to retain or to remove the present employees of Japanese nationality in the service of the Railway. In replacing such em-

ployees, reasonable notice shall be given before the date of the transfer of the Railway. Detailed arrangements regarding the replacements to take effect immediately on the transfer of the Railway are to be made by the Joint Railway Commission provided for in Article XVI of the Treaty.

6. The entire subordinate staff of the Japanese Traffic Manager and the Japanese Chief Accountant of the Railway is to be appointed by the Chinese Managing Director. After two years and a half from the date of the transfer of the Railway, the Chinese Government may appoint an Assistant Traffic Manager of Chinese nationality for the period of two years and a half, and such Chinese Assistant Traffic Manager may likewise be appointed at any time upon notice being given for the redemption of the Treasury Notes under Article XVIII of the Treaty.

7. The Chinese Government is under no obligation to appoint Japanese subjects as members of the subordinate staff above mentioned.

8. The redemption of the Treasury Notes under Article XVIII of the Treaty will not be effected with funds raised from any source other than Chinese.

9. The Chinese Government will ask the Japanese Government for such information as may be useful in making the se-

lection of the Japanese Traffic Manager and the Japanese Chief Accountant of the Railway.

10. All questions relating to the existing contracts or commitments made by the Japanese authorities in charge of the Railway shall be settled by the Joint Railway Commission; and, prior to the transfer of the Railway, the said Japanese authorities will not make any new contracts or commitments calculated to be harmful to the interests of the Railway.

IV. OPENING OF THE FORMER GERMAN LEASED TERRITORY OF KIAOCHOW.

11. The term "lawful pursuits" used in Article XXIII of the Treaty shall not be so construed as to include agriculture, or any enterprise prohibited by Chinese law or not permitted to foreign nationals under the treaties between China and foreign Powers, it being understood that this definition shall be without prejudice to the question of the salt industry provided for in Article XXV of the Treaty or to any question relating to vested rights which shall be determined in accordance with Article XXIV of the Treaty.

V. POST OFFICES.

12. All the Japanese Post Offices outside of the former German Leased Territory of Kiaochow shall be withdrawn simultaneously with the transfer of the Tsingtao-Tsinanfu Railway, if such transfer shall take place before January 1, 1923, and, in

any case, not later than the said date.

13. All the Japanese Post Offices within the former German Leased Territory of Kiaochow shall be withdrawn simultaneously with the transfer of the administration of the said Territory.

VI. CLAIMS.

14. The omission of any reference in the Treaty to the question of claims which Chinese citizens may have against the Japanese authorities or Japanese subjects, for the restitution of real property in Shangtung or for damages to the persons and property of Chinese citizens in Shangtung, shall not prejudice such claims.

15. The Chinese authorities shall furnish the Japanese authorities with a list of such claims together with all available evidence in support of each claim. Justice shall be done through diplomatic channel as regards the claims against the Japanese authorities, and through ordinary judicial procedure as regards the claims against Japanese subjects. With respect to the latter class of claims, the investigation into actual facts of each case may, if necessary, be conducted by a Joint Commission of Japanese and Chinese officials, in equal number, to be specially designated for that purpose.

16. The Japanese Government shall not be held responsible for any damages which may have been directly caused by military operations of Japan during the late war.

Washington, D. C., February 4, 1922.

T. K.
K. S.
M. H.

SZE.
V. K. W. K.
C. H. W.

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